

**The Benefits of Hindsight:  
Assessing the impact of apprenticeship reforms on  
employer behaviour**

**Final report prepared for  
Edge Foundation  
and  
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By**

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## Glossary

AELP	Association of Employment and Learning Providers
CIMA	Chartered Institute of Management Accountants
CSR	Corporate Social Responsibility
CVET	Continuing Vocational Education and Training
DfE	Department for Education
EAS	Employer Apprenticeship Survey
EHC	Education, Health and Care plan
EPA	End Point Assessment
EQF	European Qualifications Framework
ESS	Employer Skills Survey
FE	Further Education
FISSS	Federation for Industry Sector Skills and Standards
HR	Human Resources
ILR	Individual Learner Record
IDBR	Inter-Departmental Business Register
IER	Institute for Employment Research
IVET	Initial Vocational Education and Training
KTPs	Knowledge Transfer Partnerships
RoAAO	Register of Apprentice Assessment Organisations
RoATP	Register of Apprenticeship Training Providers
SSA	Sector Subject Area
TSO	Third Sector Organisation

## Executive Summary

### Introduction

IER was commissioned by the Edge Foundation and the Gatsby Foundation to undertake research into the impact of the Spring 2017 apprenticeship reforms on employer's decision making related to taking on apprentices. The aim was to explore why employers substantially reduced their apprenticeship provision after the introduction of these reforms.

The 2017 reforms included: the introduction of an apprenticeship levy; the introduction of End Point Assessment; the stipulation of 20% off-the-job training for all apprenticeships; and the creation of a Register of Apprenticeship Training Providers.

There were two elements to the research. An analysis of officially published apprenticeship data, including the Employer Skills Survey 2019, and the Apprenticeship Evaluation Employer Survey 2018/19. And in-depth case study interviews with 23 employers, both levy and non-levy payers.

Apprenticeship data show that there has been a large expansion in apprentice numbers over the past 20 years and a change in their composition. Apprentices are increasingly aged over 25, working towards higher level standards, and more likely to be existing employees of the organisation which placed them on the apprenticeship. Additionally apprenticeships are increasingly becoming the preserve of larger organisations.

### The impact of apprenticeship reforms

Following the introduction of the reforms there was a significant fall in the number of apprenticeship starts. There was also an acceleration of pre-existing trends towards older and higher level apprentices. Whilst numbers began to recover from the low 2017 base, apprenticeship recruitment was hit further by the pandemic. A rough and ready estimate suggests that apprenticeship starts fell by around 14% as a result of COVID 19.

Post-reforms, it was very much business as usual for most levy and non-levy payers. Non-levy payers said the reforms passed them by, although some were concerned by the 10% they paid towards the cost of training. Most levy payers were very positive about the reforms as it gave them a dedicated apprenticeship funding pot, some planned extensively for the levy's introduction.

Once the reforms had bedded in levy payers tended to expand the number, level and standards of apprenticeships primarily to spend the levy whilst non-levy payers carried on as before. Many levy payers expanded into higher level apprenticeships, mainly to replace or complement graduate and other existing higher level training.

In some low cost standards, the need to backfill apprentices whilst they were training added considerable costs. This limited the numbers they recruited and, in one case, led to them abandoning apprenticeships.

The main reason why there was so little change in non-levy payers' recruitment was because they need apprentices to meet their workforce requirements, and have years of positive experience of training apprentices to draw on.

Most apprenticeship recruitment was unaffected by the pandemic as recruitment decisions for 2020 had already been made. In the medium term, there are likely to be knock-on effects as

employers wait for apprentices to complete before taking on new ones. Overall, employers were optimistic about recruitment levels returning to normal in 12-18 months.

## **Conclusions**

Apprenticeships remain an important means through which employers meet their skill needs. But the levy has had an impact on employer behaviour in relation to apprenticeship recruitment and the type, age and level of the apprentice they take on.

Some of these impacts may have been transitional as the new system bedded in. But there are more structural impacts, some reinforcing pre-existing trends:

- a reduction in apprenticeship recruitment by non-levy payers;
- an increased preference for people working towards higher level apprenticeships;
- specific barriers in particular sectors, such as, backfilling costs;
- a continuation, and potentially an acceleration, of trends in the profile of apprentices which pre-dated the reforms.

Most non-levy payers managed to accommodate the 2017 reforms as they had little or no effect on them. However, there is evidence that the requirement to contribute to the costs of apprenticeship training does pose a problem and a disincentive to train apprentices. Post-reforms, the number of non-levy payers taking on apprentices has substantially dropped-off. It is not clear why this should be the case, other than an accumulation of small but additional costs and changes such as: the additional contribution to the cost of training; the 20% off-the-job training requirement; and changes in, and availability of, certain standards.

Levy payers have been equally affected by some of these changes but they have the incentive of spending their levy pot.

The evidence points to an increased preference for employers, especially levy payers, to make use of higher level apprenticeships, in some cases by transferring existing training. This may be due to higher level apprenticeships being the direction of travel within their sectors i.e. an increased demand for people with higher level skills. But for many it was to maximise their levy spend. By and large higher level apprenticeships are relatively costly ones to both employers and the Government which may drain the levy pot. This may be less of an issue for employers underspending their levy but might be for non-levy payers dependent on fixed or diminishing Government apprenticeship funding.

The reforms have increased levy paying employers' financial investment in apprenticeships, and stimulated their preference to use it to train existing staff at higher levels, sometimes through converting existing provision to apprenticeships. This may generate higher level skills benefitting the employer, the apprentice and in aggregate the economy. However, the cost might be a lower number of apprentices, fewer trained by smaller employers, as well as less younger and lower level apprentices.

If the levy has indeed skewed provision to larger employers, and for higher levels for older and existing workers, this begs questions about the resources available to train younger people at Levels 2 and 3, and by smaller firms. If the available funding for apprenticeships becomes increasingly spent on higher level training by large employers, there is a need to think about how the training needs of young people at lower levels, and those in smaller firms, can be met.



# 1. Introduction

## 1.1. Introduction

The University of Warwick Institute for Employment Research (IER) was commissioned by the Edge Foundation and the Gatsby Foundation to undertake research into the impact of the Spring 2017 apprenticeship reforms on employer behaviour. At the time of the introduction of the reforms (the most prominent of which was the apprenticeship levy, see Section 1.2 below), a number of surveys suggested that the impact of the reforms would be minimal with most employers keeping to their apprenticeship plans i.e. taking a ‘business as usual’ approach. In practice, however, the number of apprenticeship starts in 2017/18 decreased considerably. This research project explores the reasons why there were differences between employers’ pre-reform intentions with their actual post-reform behaviour.

The study was planned and started just before the COVID-19 pandemic in March 2020. This led to a delay in the fieldwork as the first lockdown significantly affected employers and apprentices. As a result interviews took place over a longer time period than planned (and throughout the pandemic) as lockdowns were implemented.

## 1.2. Background to the study

In April 2017, there was a sea change in the way apprenticeships were funded. In the past, apprenticeships had been heavily subsidised by the Government, especially for young people. From Spring 2017, the apprenticeship levy was introduced and this imposed a levy on all employers of 0.5% of their payroll. Each employer received an allowance of £15,000 which meant that only those with a wage bill over £3 million per annum would contribute to the levy. Any expenditure by levy payers on apprenticeship training would be offset by their levy contribution. Non-levy payers would receive a 90% contribution to the costs of their training and pay the remaining tenth themselves. This was increased to 95% in April 2019 with employers paying 5% of the costs of the apprenticeship programme.

**Figure 1: Timeline of apprenticeship reforms in England 1993-2017**

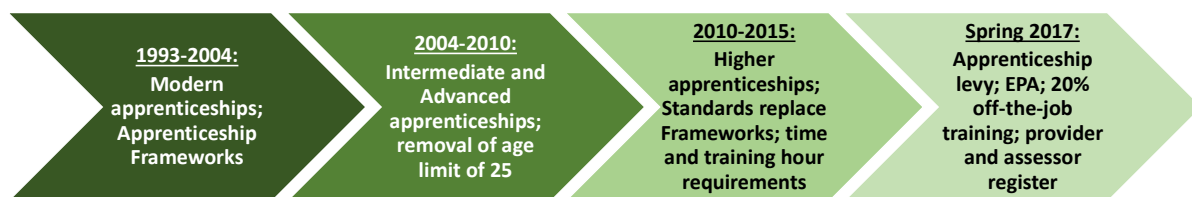


Figure 1 provides an overview of apprenticeship reforms over the past 30 years. There has been a continuing development of apprenticeships from their reincarnation in the early 1990s with the introduction of Modern Apprenticeships. Since then there has been a gradual evolution and expansion of the brand, such as, removing the upper age limit, and introducing higher level apprenticeships. An important aspect of the reforms has been to create an employer demand-led programme. For example, in 2013 apprenticeship frameworks were replaced by apprenticeship standards. Standards were to be produced by employer-led groups called Trailblazers so that the content of apprenticeships were designed by employers. Frameworks were to be withdrawn by 2017/18 but the timetable has slipped and put back to 2020/21.

The levy was the main element in a batch of reforms introduced in Spring 2017. These also included: an emphasis on End Point Assessment (EPA) - rather than achieving a qualification

- as a means of determining attainment; and, creating a Register of Apprenticeship Training Providers (RoATP) from which employers could choose and a register of Apprentice Assessment Organisations (RoAAO).

As Figure 2 shows, since the introduction of the apprenticeship levy in April 2017, there has been a significant reduction in the number of apprentice starts overall. In the 12 months prior to May 2017, the number of apprenticeship starts was just under 565,000. In the 12 months after April 2017 the figure fell by almost 220,000 to 346,000, a decrease of 39%.

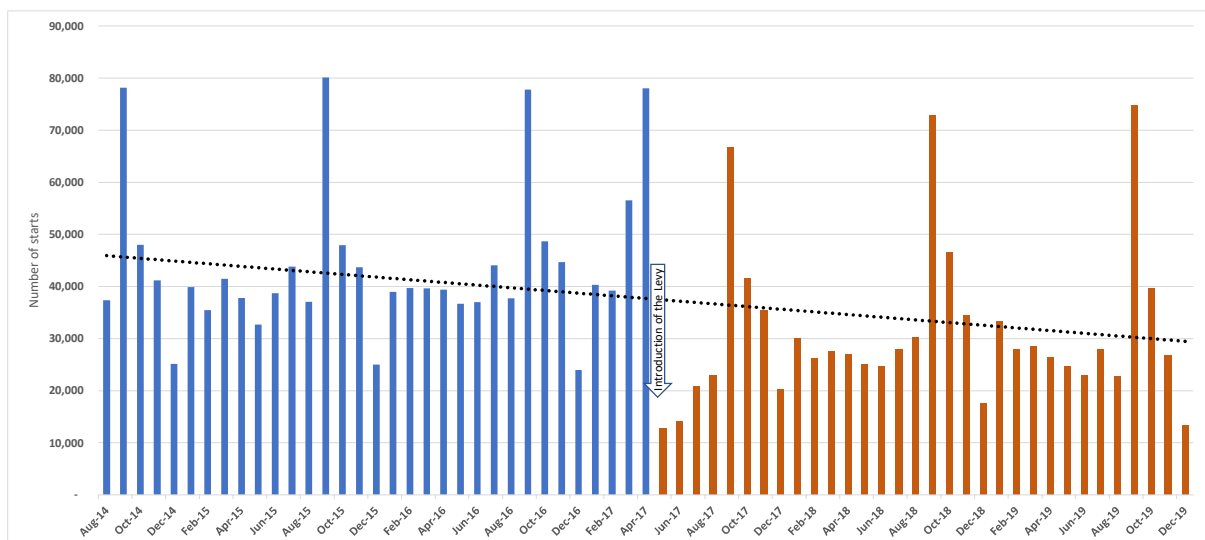
The immediate impact of the reforms, however, was affected by the large increase in apprenticeship recruitment on early Spring 2017 just prior to the reforms. There was a pre-levy 'spike' in recruitment in March/April 2017 just before the reforms were introduced in May 2017. This was similar in size to the normal peak recruitment months of September/October and naturally reduced levels of recruitment throughout the rest of the year. Controlling for this peak, the annual reduction is still large but half of the above i.e. a fall of 114,000 (-22%).

Since this period, and prior to the impact of COVID-19, the number of apprenticeship starts has continued to fall, though by a slower rate.

Further analysis of apprenticeship data (see Section 2.4) shows that the decrease has been greatest amongst younger apprentices, especially 16-18 year olds, and Intermediate (Level 2) apprentices, though these trends pre-date the introduction of the apprenticeship levy.

A new trend appears to have been stimulated by the levy: decrease in the take-up of apprenticeships by smaller firms (who tend to be non-levy payers) and an increase in take-up by larger organisations. Section 2 analyses recent trends in apprenticeships in more detail.

**Figure 2: Number of monthly apprentice starts: August 2014-December 2019**



Notes: Bars show monthly starts. The post-levy period denoted by the terracotta coloured bars. Levy funding became applicable to starts from 6 May 2017.

Source: Department for Education, Apprenticeship and levy statistics, 2014-2019.

The significant downturn in apprenticeship starts post-levy was not expected. In 2015/16, IER undertook a study for the Department for Education (DfE) to assess how employers expected to respond to the introduction of the apprenticeship levy (Gambin and Hogarth, October 2016). The report provided a nuanced picture of the levy's likely impact.

In general it suggested that apprenticeships where the employer encountered a relatively high net cost of apprenticeship training at the end of the training period, such as engineering at Level 3, the impact of the levy would be negligible. This was because the cost per apprentice of the levy payment was relatively small compared with the overall cost to the employer of delivering the apprenticeship. In contrast, where the employer delivered apprenticeships of a kind where the overall costs of training could be recovered by the end of the formal training period – due to the value of the productive contribution of the apprentice whilst training – the impact of the levy was seen to have more impact. If, after the introduction of the levy, the net cost of training to the employer was still close to zero (including the cost of paying the levy), then the employer would continue to recruit apprentices much as before. But if it were to raise the cost of the apprenticeship to the point where there was a substantial net cost to the employer, then this would reduce the number of apprentices taken-on because the employer saw little opportunity to recoup any net cost in the post-apprenticeship period. Relatively low levels of labour retention would see to this.

Other changes introduced to apprenticeship training, such as the 20% off-the-job training component, may well have had the impact of increasing the cost to the employer of delivering an apprenticeship. In general, the study indicated that the levy would have a relatively modest impact on the number of apprenticeship starts, other things being equal.

In May 2017, just after the levy was introduced, IER was commissioned by the Association of Employment and Learning Providers (AELP) to assess the impact of the levy (alongside other factors) on the number of apprenticeship starts (Dickinson, 2017). Findings from the study pointed towards a short-term (seven months) reduction in overall apprenticeship recruitment of around -20%, with medium-term (annual recruitment plans post-October 2017) impacts varying according to whether an employer was a levy or non-levy payer. Levy payers were much more likely to increase apprenticeship recruitment in order to recoup their levy contribution, an important dimension of this was being able to use the levy to train existing staff. For non-levy payers there were two main reasons. Firstly, they had no need for more apprentices; as non-levy payers are smaller firms, they take on fewer apprentices and do so on a cyclical basis i.e. only recruiting new apprentices when the current cohort has completed. The second main reason was that the 10% employer contribution introduced in 2017 was deemed by them to be ‘too much’.

The survey also found that employers were likely to reduce the number of 16-18 year olds and Level 2 apprentices. This is linked to employer size as the study found (along with other employer apprentice surveys, see Section 3.2) that non-levy payers are more likely to take on younger apprentices at Level 2.

Therefore, whilst the AELP study did predict a short-term reduction in apprenticeship starts, this was around half the level of that which transpired. Furthermore, the continued decline in starts into the medium term is also much greater than what was expected.

There are potentially a number of factors which might account for the observed fall-off in the number of starts. These include:

- the above studies failed to fully capture the likely impacts of the levy (i.e. there were factors associated with the levy which have only recently come to light);
- factors other than the levy or changes in the apprenticeship system brought about a decline in apprenticeship starts (e.g. the economic environment/economic uncertainty);

- temporary administrative problems resulting from the relatively rapid introduction of the levy, for example, providers failing to register for the RoATP, and limits put on non-levy provider contracts;
- other administrative constraints, such as, provider allocation limits for non-levy apprenticeships;
- a change in the composition of apprenticeship starts with more at a higher, more costly level (degree level apprenticeships) which, because of funding limits, results in an overall decline in the number of starts; and,
- other changes in the apprenticeship systems, such as the migration to standards and the 20% of off-the-job training requirement, may have deterred some employers from taking on apprentices.

These questions were explored through in-depth qualitative interviews with employers.

### 1.3. Methodology

#### 1.3.1. Apprenticeship data analysis

There were two main elements to the study. The first was an analysis of apprenticeship data over the past 20 years using DfE published apprenticeship data.<sup>1</sup> In addition data from two DfE employer surveys was also analysed:

- The **Apprenticeship Evaluation Employer Survey (EAS) 2018/19**.<sup>2</sup> Whilst the EAS report and data were published in 2020, the survey fieldwork was undertaken December 2018-March 2019. The EAS asks employers about people who completed their apprenticeships during February-September 2017 i.e. at the time of the introduction of the apprenticeship reforms. These apprentices would have been recruited at least nine months before the reforms were introduced. The EAS asked employers about their awareness of the 2017 apprenticeship reforms and how they might impact on their recruitment plans. In addition, the survey asked a number of questions specifically about the benefits and costs of apprenticeships, and specific questions concerning Degree apprenticeships.
- The **Employer Skills Survey (ESS) 2019**.<sup>3</sup> Survey fieldwork was undertaken June-December 2019 and so the ESS provides the most comprehensive overview of employer pre-pandemic activity. Although a general employment and skills survey, there are sets of questions asking employers about their apprenticeship activity, which includes a subset of questions about the impact of the apprenticeship levy and the other reforms.

There was also additional analysis of DfE apprenticeship data which plotted the impact of COVID-19 on apprenticeship recruitment during 2020.

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<sup>1</sup> <https://www.gov.uk/government/statistical-data-sets/fe-data-library-apprenticeships>

<sup>2</sup> <https://www.gov.uk/government/publications/apprenticeship-evaluation-2018-to-2019-learner-and-employer-surveys>

<sup>3</sup> <https://www.gov.uk/government/publications/employer-skills-survey-2019-england-results>

### 1.3.2. Employer sample

A series of in-depth semi-structured interviews with apprentice employers was also undertaken. The initial intention was to base the sample on the 2017 AELP study (see above). This would enable the researchers to identify employer's short- and medium-term apprenticeship recruitment plans at the moment of the introduction of the reforms and discuss with employers their reasons for keeping to or varying from these intentions.

The sample was stratified by two dimensions, as shown in Figure 3. One dimension was whether the employer was a levy- or non-levy payer, because this had impacted so clearly on employer apprenticeship recruitment since the levy was introduced. The second dimension was the cost of the apprenticeship. The cost of an apprenticeship has been identified through a number of studies, most notably the Net Costs of Training studies commissioned by DfE and undertaken by IER.<sup>4</sup> These studies identify that more technical apprenticeships (such as in engineering, construction and professional services) are more expensive than those in more service and process based apprenticeships (such as, retail, hospitality and social care).<sup>5</sup> More recent studies have confirmed the cost differential between different standards.<sup>6</sup>

Our original plan was to interview five employers per quadrant, making a total of 20 employers in all. However, 23 employers were interviewed with a profile broadly similar to the proposed sample.

There was one fewer interview of a low cost apprenticeship non-levy payer employer, four were achieved. This was for two main reasons. Firstly, the low cost standards were in sectors asked to close due to the lockdown (e.g. hairdressers) or in sectors where demand had risen in response to the health crisis (such as social care) therefore either the businesses were shut or too busy. Furthermore, it was difficult to contact and arrange interviews with smaller employers as the apprentice decision maker tended to be the managing director who were very busy people working on addressing the impacts of the pandemic.

Interviews were easier to achieve with levy payers who were larger employers. This is because the respondent tended to be a dedicated apprenticeship manager or a human resources (HR) professional. Organisations with high cost apprenticeships were also in sectors affected less by COVID-19 (e.g. engineering) and so had more time to talk to researchers.

As the researchers were wanting to meet the sample quotas, arrangements were being made with several employers at any point in time. A larger number agreed to be interviewed and so it was decided to carry out the interviews rather than stick to the precise number agreed in the original sampling.

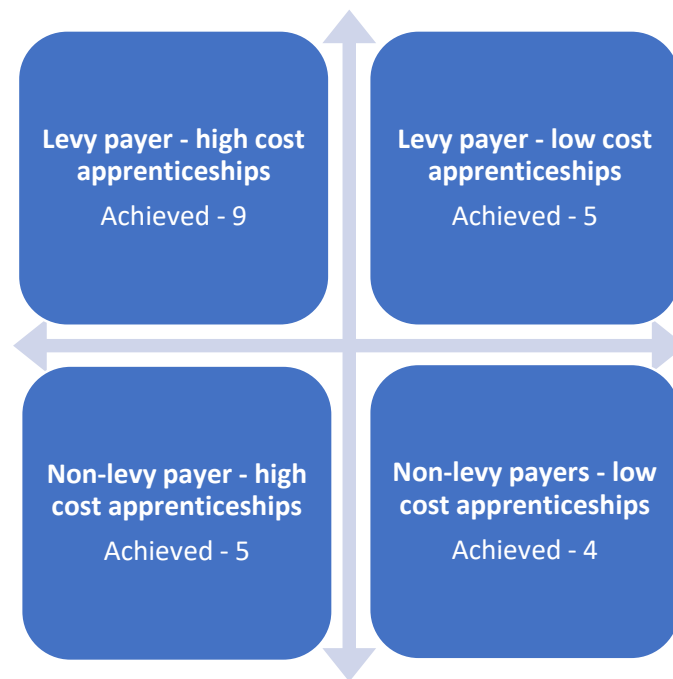
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<sup>4</sup> Hogarth, T. et al (2012). Employer Investment in Apprenticeships and Workplace Learning: The Fifth Net Benefits of Training to Employers Study. Research paper 67, Department for Business, Innovation and Skills.

<sup>5</sup> Costs include: apprentice salary; drop-out rate; supervision; and training costs. Benefits are primarily the apprentices contribution to production.

<sup>6</sup> IFF Research (February 2020) Cost of delivering apprenticeship standards. The Institute for Apprenticeships and Technical Education and the Education and Skills Funding Agency (IFATE).

**Figure 3: Stratifying the sample across two dimensions**



### 1.3.3. Employer respondent profile

In total, the 23 respondents employed a total of 2,852 apprentices in 2019<sup>7</sup>. The broad apprenticeship frameworks/standards are shown in Figure 4 by level separated into low and high cost.<sup>8</sup> The larger employers in particular delivered a number of different apprenticeship standards.

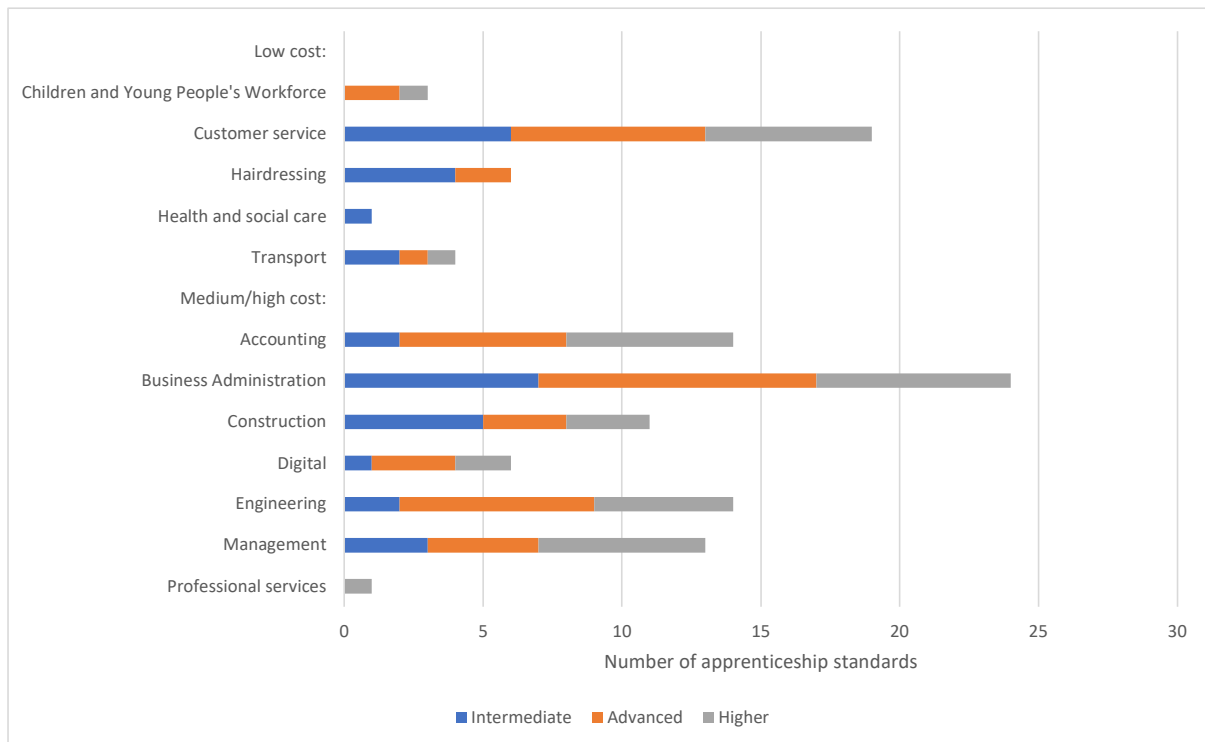
Customer service was the largest low cost apprenticeship standard currently being delivered by employers, and business administration the main high cost standard.

Just under one third of standards were at Intermediate level, two in five were Advanced and around one in three were at Higher level. There were proportionally more Intermediate level low cost than high cost apprenticeships.

<sup>7</sup> Two organisations had around 1,000 apprentices each.

<sup>8</sup> We are almost at the end of the transition from apprenticeship Frameworks to Standards, so some employers in the survey were currently running both. In the remainder of the report we refer to both types of apprenticeship as standards.

**Figure 4: Interviews achieved by apprenticeship standard**



Source: IER apprenticeships with hindsight survey

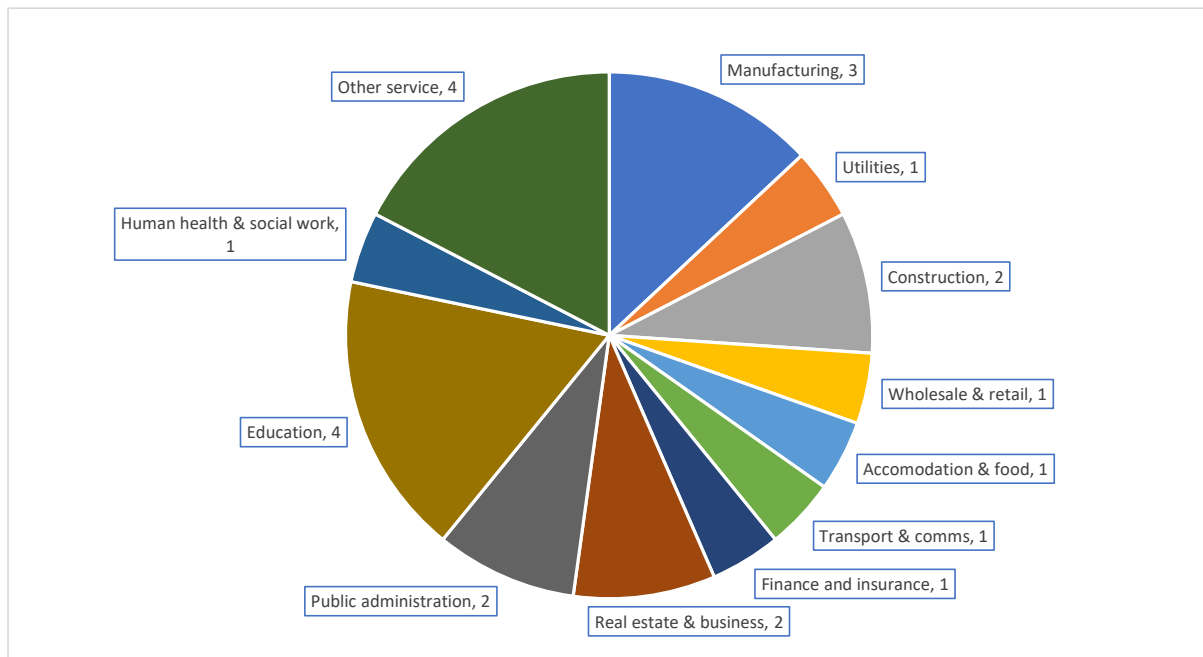
There were nine non-levy and 14 levy employers in the survey. Non-levy employers were concentrated in the (low cost) children and young people’s workforce and hairdressing standards, and (high cost) construction and engineering standards. Non-levy payers were more likely to be employing Intermediate level apprentices.

The 23 employers were delivering 54 different specific apprenticeship standards or 105 if the different levels are taken into account. Non-levy payers were much more likely to be delivering one standard at one level. Therefore, a wide range of standards and levels are included in the sample, from Intermediate to degree and from large (in volume) more generic standards (such as hairdressing and management) to smaller, more specific standards such as outdoor activity instructor and town planner.

Four organisations (two in hairdressing and two in construction) provided apprenticeship training for their own organisation as well as others. All of these were non-levy payers. Respondents in these companies were primarily asked about the impact of the levy and other reforms on their own apprenticeship programmes, but also more broadly about the impact in their sectors as a whole.

Figure 5 shows that the 23 employers were drawn from a range of sectors, 12 in total. The largest number were in education (4 respondents), other services (4) and manufacturing (3).

**Figure 5: Sector (SIC 2007) of respondents**



Source: IER apprenticeships with hindsight survey

#### **1.3.4. Employer interviews**

Initially the sampling frame used was 148 employers who agreed to further contact from the 2017 AELP study. In organising the fieldwork it proved necessary to use additional sources. A large number of employers from the 2017 AELP did not participate in the study, mainly because the original person could not be contacted (they had moved to another job) and no one else would replace them or because the organisation no longer existed. As was mentioned above, the period of interviewing had to negotiate periods of lockdown followed by intensive activity and some people were too busy to respond.

Additional employer contacts were identified from various apprenticeship vacancy advertising websites such as GOV.UK. For these employers we needed to ask what their views and planned actions were when the reforms were introduced in Spring 2017.

The in-depth employer interviews covered:

- the employer's rationale for taking on apprentices, and a brief history of apprenticeship recruitment;
- response to the original announcement of the levy;
- recruitment activity in the immediate period after the levy (May-December 2017) and whether and to what extent it had been impacted by the levy and other reforms;
- apprenticeship recruitment in 2018 and 2019, impact of the reforms and changes to recruitment, including the recruitment of Higher level apprentices;
- The impact of COVID-19 on current and future apprenticeship recruitment.

There were two semi-structured interview schedules, one for levy and one for non-levy payers. The bulk of the questions were the same with the main differences being questions about the size of the levy being paid.



Employers were asked about their apprenticeship recruitment generally. Where they employed people on more than one standard they were asked to focus on decision making on the specific low and high cost apprenticeships they offered (see Figure 3).

Respondents were also asked to complete a datasheet which recorded the number of apprentices by standard, level and age in 2019 (the last complete year before the pandemic). Organisations were also asked to provide data for 2016 (the last complete year before the introduction of the apprenticeship reforms). All organisations were able to provide 2019 apprenticeship data<sup>9</sup> and 18 organisations were able to provide data for 2016.

#### **1.4. Structure of the report**

The remainder of the report is divided into five sections:

- Section 2 provides an overview of the development of the apprenticeship system, and the introduction of apprenticeship reforms in Spring 2017;
- Section 3 is an analysis of employer apprenticeship behaviour at the time of the apprenticeship reforms based on an analysis of the employer apprenticeship survey;
- Section 4 includes data analysis of the latest ESS 2019 which provides the latest national survey data on employer behaviour post-reforms;
- Section 5 is based on the in-depth qualitative employer interviews undertaken for this study and reports on employer apprenticeship intentions pre-levy, and the immediate, medium, and longer term impacts of the levy and other reforms. There is also a section on the impact of COVID-19 on employer apprenticeship activity;
- Section 6 provides the conclusions to the study.

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<sup>9</sup> In most cases respondents were able to provide data for all of their apprenticeship programmes. However, in five cases respondents were only able to provide data on their main (largest) apprenticeship programmes.

## 2. The development of the apprenticeship system and the role of the apprenticeship levy

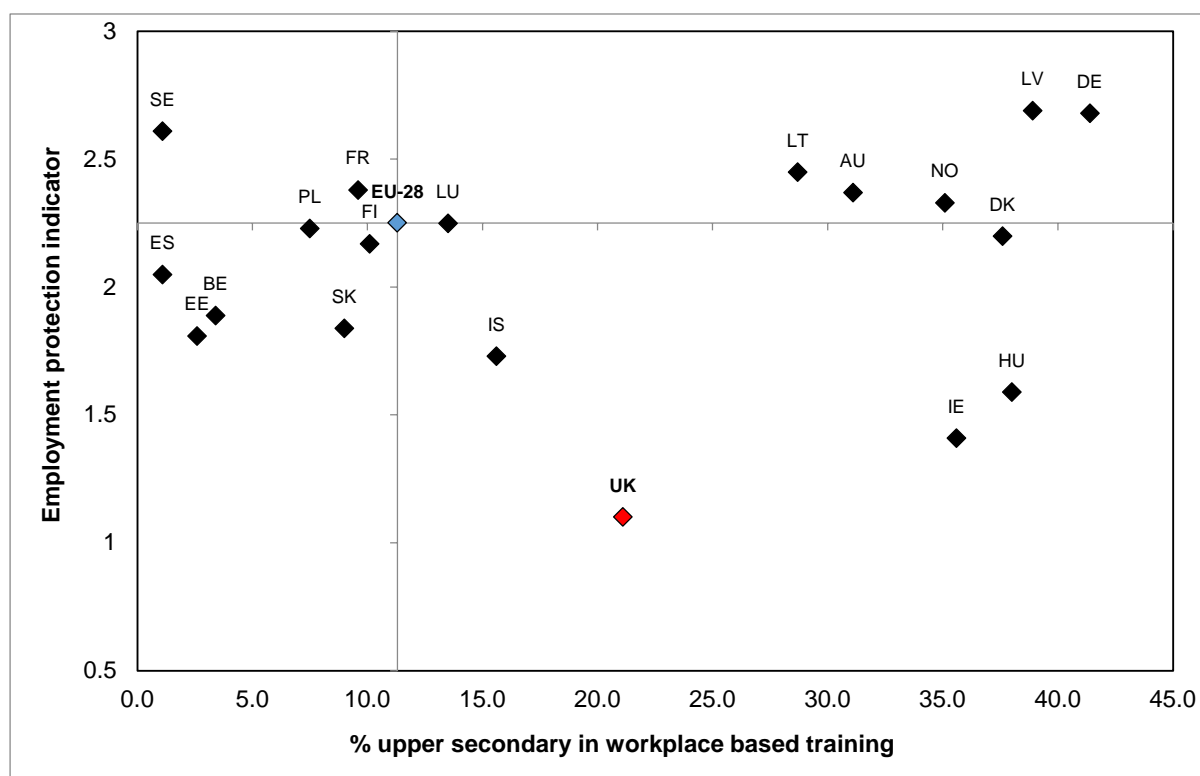
### 2.1. Introduction

By way of context, it is worth considering the various policy twists and turns in apprenticeship policy in England over recent decades. England has developed an apprenticeship system which is unique in many respects when compared with those in other countries with well established apprenticeship systems, especially the dual systems in Germany speaking countries. The relatively unique features of the apprenticeship system in England are reflected in:

- the relatively short and often variable duration of many apprenticeships (typically those provided at Level 2);
- the characteristics of apprentices with a substantial share of them already working for their employer at the point of starting their apprenticeship;
- the central place of employers in the setting the content of apprenticeship standards rather than the social partners more generally.

But perhaps the key issues which mark out the apprenticeship system is the inter-relationship between funding and labour market institutions. England, along with the rest of the UK, has a labour market typically classified as market-oriented - reflecting the relatively limited labour market regulation and collective bargaining (Cedefop, 2018). Figure 6 summarises the relatively unique position of the UK compared with other countries by comparing the degree of labour market regulation with levels of participation in apprenticeship training by those in FE.

**Figure 6: Participation in school/work based training in upper secondary education by level of employment protection – selected EU countries 2018**



Source: Gambin and Hogarth (2021)

Arguably, compared with Germany or Austria - both countries with mass participation apprenticeship systems and more regulated or co-ordinated labour market institutions – employers have less guarantee of being able to appropriate the return on their apprenticeship investments. In co-ordinated systems agreed national or sectoral wage rates means that apprentices upon completion of their training are, perhaps, less likely to move to a non-training employer to gain a higher wage because the pay for the wage of the fully trained worker is to some degree fixed. In practice, wage rates (even where collective agreements are in place) do vary so there is scope for ‘poaching’ of apprentices to take place immediately post completion. But the evidence suggests this tends not to happen in practice or only to a relatively small degree (Mohrenweiser et al., 2019). It is also regarded as transitory in the sense that some employers are unable to retain some of their apprentices because of a temporary decline in their order books, which allows those with expanding order books to recruit their apprentices. Accordingly, there does not appear to be that much of a free-rider problem. It may be, however, that the institutional element is to some degree overplayed. There is evidence to suggest that apprenticeships in England are relatively costly to the employer to deliver principally because of the wage levels of apprentices. Certainly the costs to the employer of delivering an apprenticeship seem relatively high in England compared with Germany (Schönfeld et al., 2020; Gambin and Hogarth, 2017). Other things being equal, this might mean that employers are more risk averse in England when it comes to investing in apprenticeships especially in those which might be regarded as investments for the future because the net costs of training are relatively high (Lindley, 1975; Gambin and Hogarth, 2016). It also has implications for the extent to which employers might be prepared to over-train i.e. training more apprentices than they predict they will need and then retaining the most productive at the point of completion (Lewis, 2013, 2014).

## **2.2. The policy prioritisation of apprenticeship training**

Much of the expansion in higher education over recent decades has been driven by the wage premium associated with obtaining a degree. Over time the evidence has become more nuanced. Some countries have observed a break in the monotonic relationship between education level and relative wage growth. And there is growing evidence that there are significant levels of skills mismatch typically associated with individuals possessing a level of qualification either in excess of that required to do the job and / or in a subject unrelated to their day-to-day tasks.<sup>10</sup> In response the policy discourse has frequently pitted higher against further, or more precisely, vocational education when in fact they are complementary. After all, individuals will typically require qualifications obtained in the further education to progress to the next level. But it has concentrated attention on the best way to match skills supply – especially that which is publicly funded – to demand. Here apprenticeship training has tended to take centre stage. Because of the way in which apprenticeships – or the dual systems as it is referred to in some countries – combine school-based learning with the acquisition and practice of skills in the workplace overseen by employers, it is regarded as being particularly adept at matching skills supply to its demand. Employers, it is reasoned, will confer upon apprentices those skills for which they have a demand in the workplace. While this over-simplifies the way in which apprenticeships operate in practice, given that it is a concept which embodies a variety of approaches, it captures the essence of why policy makers across the world have become

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<sup>10</sup> For example, the ESS 2019 found that 34% of employers reported staff skills underutilisation. This compares with 13% of employers who reported skills gaps and 6% who reported skills shortages.

increasingly interested in promoting this form of training. Accordingly a number of broad based initiatives designed to promote this form of training have been introduced in many countries, including:

- making apprenticeships a more attractive proposition compared with the general route through further education to would-be learners;
- demonstrating the relative returns to individuals (and their employers) of completing an apprenticeship compared with something else;
- financial incentives to employers to take on apprentices;
- improving apprentices' access to higher levels of education and training (the permeability of apprenticeship training).

Despite the commonality of policies to ensure that apprenticeships deliver economically valuable skills, they do so from differing starting points. One way of classifying is with reference to their purpose. Markowitsch and Wittig (2020) classify apprenticeships systems across Europe with respect to their main purpose:

1. professional education - to educate and train the younger generation of a professional community (i.e. in an occupation/trade, sector, or professional community)
2. corporate training to make sure that the specific skills needed by enterprises are available where the skills cannot be provided by external recruitment, such that employers engage in retraining existing staff or train new staff (i.e. apprentices);
3. mainly school/university based education to train young people where general education has become increasing vocational and involved work experience;
4. active labour market policies to assist certain groups to enter, re-enter or sustain their position in the labour market.

Conventional wisdom tends to place England in the corporate training category, but closer scrutiny reveals that the first three purposes have tended to be served over time. This reflects the fact the apprenticeship system contains sufficient flexibility that it can meet a plurality of needs.

### **2.3. The roots of the modern apprenticeship system in England**

As noted above, England proves to be an interesting case in the development of apprenticeship systems in modern times. It has tended to be the government's preferred option for those taking the vocational pathway through further education. But even the most potted history of apprenticeships in England reveals how difficult it has been to establish them with anything like the veneration of, say, the dual systems found in German speaking countries. Even before the establishment of publicly funded Modern Apprenticeships in 1994, when apprenticeship training was largely self-funded and self-governed by employers, participation rates tended to be relatively low (see Table 1)<sup>11</sup>. In particular during the 1970s and 1980s the apprenticeships systems, compared with that of Germany, appeared to be in serious decline (Broadberry and Mahoney, 2004; Broadberry and Wagner, 1996). This was also a period when the then government agency responsible for vocational training – the Manpower Services Commission

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<sup>11</sup> An estimate for 1991 for the UK derived from the Labour Force Survey indicates that the percentage of employees who were apprentices was potentially as low as 1.2 per cent. But this not necessarily fully consistent with the other statistics provided in Table 1.

– seemed to become increasingly impatient with the apprenticeship system as was such that it increasingly directed investment into a parallel college-based vocational system which contributed more to the demise of apprenticeship system than the rapid contraction of the manufacturing sectors which was simultaneously taking place (Parkes, 1990; Gospel, 1995).

**Table 1: Apprentices as a percentage of employees in Great Britain and Germany, 1900-1990**

Year	Great Britain		Germany	
	Industry <sup>12</sup>	Total	Industry	Total
1900	-	-	7.7	3.0
1907	4.2	2.5	6.4	2.9
1925	5.0	2.5	7.6	3.2
1930	-	-	6.5	2.3
1951	3.2	1.9	7.9	4.8
1961	4.6	3.6	4.8	4.6
1971	4.1	3.3	5.0	4.9
1981	3.7	2.6	8.0	6.3
1990	-	-	7.4	6.1

Source: Broadberry and Mahoney (2004)

Publicly funded apprenticeships (Modern Apprenticeships) were first introduced in 1994. They had their roots, at least in part, in the relatively high levels of youth unemployment prevalent at the time and in the general acceptance that programmes such as the Youth Opportunity Programme, Youth Training Scheme, and Youth Training failed to deliver something akin to apprenticeships which were in steep decline. They also had their roots in policy concerns that Britain had little by the way of a system which delivered intermediate level skills which were seen as important drivers of productivity and competitiveness in countries such as Germany and the Netherlands.

Following the introduction of Modern Apprenticeships in 1994, the evidence suggested that they had not been without success. Evidence indicated that deadweight levels decreased in the immediate post-introduction period with a number of more qualitative gains obtained. For example, a survey of employers providing apprenticeship training equivalent to the current European Qualifications Framework (EQF) Level 3 found that that 77% reported that they would have provided the training even if they had not received funding via Modern Apprenticeships (Hasluck et al., 1997). By 2003 this had fallen to 54% of employers – though one has to be cautious as a slightly different method was employed – with the equivalent figure for Level 2 being 44% (Riley and Metcalf, 2003). Additionally, there were also qualitative gains with the evidence pointing towards apprenticeship training being more structured than the equivalents available, and more likely to be accredited by external bodies (Economic Research Services, 2000). Despite these positives, policy makers had concerns about the quality and volume of provision which appears to have dogged publicly funded apprenticeships more or less up until the present day. A cursory look back over the past two decades reveals a large number of official reviews with concomitant plans for reform and overhaul. In 2012, getting on for 20 years

<sup>12</sup> Industry refers to sectors other than agriculture and services.

since Modern Apprenticeships were first introduced the Richard Review of Apprenticeships seemed to be suggesting root and branch reform which involved some simplification of what constituted an apprenticeship, an increased emphasis on the role to be played by employers in establishing the content of an apprenticeship (hence the shift from frameworks to employer-led standards), and an increased emphasis on training at levels 3 and above. The intended impact of these reforms was to make apprenticeships more attractive to employers (given their role in the design of standards) and shift the focus away from Level 2 to higher levels of provision. Alongside these reforms were those introduced by government to ensure that there was a minimum level of off-the-job training.

From the above it is possible to identify the two main concerns of policy makers since Modern Apprenticeships were first introduced:

- 1. increasing the number of apprentices;**
- 2. provision of high quality training which led to the acquisition of economically valuable skills.**

In the period following the establishment of publicly funded apprenticeships the emphasis was to increase the volume of provision. Training providers were funded to deliver apprenticeships which could be used to accredit existing employees' skills or simply to train existing employees to the next level rather than, for instance, training young people recruited as apprentices. Building a critical mass of activity took time with the overall number of apprentices and the share of employers participating in the initiative remaining stubbornly modest over the early years. In 2002/3 for example, there were 167,000 apprenticeship starts with around 5% of employers reporting that they had an apprentice in 2002, down from around 10% in 1999 (Spilsbury, 2003). The numbers were subsequently built up over the 2000s reaching a peak of 509,000 starts in 2015/16. But as will be explained in more detail below, the growth has been largely accounted for by people aged 25 years and over, a substantial share of whom were likely to have been an existing employee rather than someone taken on as an apprentice.<sup>13</sup> And more recently, by an increase in the number of apprentices working towards completion of Higher level apprenticeships (i.e. at levels 4 and above). In contrast, the number of apprentices working towards Level 2 and 3 apprenticeships has, at best, plateaued, as have the numbers aged under 25 years of age.

Achievement of quality has been through making apprenticeships more 'demand-led' and placing employers "in the driving seat" (HM Government, 2015). To this end, employers have increasingly been given a central position in the development of the apprenticeship programme. With the introduction of the apprenticeship levy employers are now primarily responsible for funding, and through the advent of apprenticeship standards Trailblazer process<sup>14</sup>, businesses determine content. Employers are also solely responsible for the demand for apprenticeships,

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<sup>13</sup> According to the Apprenticeships Evaluation of Employer Surveys (2012 and 2018/19), in 2012, 29% of employers recruited existing employees on to apprenticeships and this had risen to 38% in 2018. However, older apprentices (25+) are much more likely to be existing employees (81%) than younger apprentices (19%).

<sup>14</sup> From 2013 apprenticeship frameworks were phased out and apprenticeship standards were introduced. Whereas the former were developed by a broad range of organisations, standards were designed and delivered by Trailblazers predominantly featuring employers (and in the main large employers).

as apprentices must have an employment contract. In addition to the focus on volume and quality, a third public policy focus has emerged over the past 10 years:

### **3. funding of apprenticeships.**

At the end of the 2010s, the Bank Review drew attention to what it described as sub-optimal levels of investment in apprenticeships and the need to leverage more investment from employers (Banks, 2010). This was echoed in policy documents which mentioned that the costs of apprenticeships needed to be shared between their beneficiaries and that employers should meet a certain share of the overall cost of training which had previously been met by government (under the rubric of employer routed funding). If funding could be routed through employers so that they were negotiating the cost of training with providers, and if in addition, they had to bear a certain share of that cost, then they would be incentivised to obtain value for money from providers and ensure that training met their needs. Thereby funding could be used to leverage increased quality of training provision from providers. Before this policy had much chance to gain a footing, it was superseded by the announcement, in 2015, to introduce an apprenticeship levy in 2017. This would be levied on employers with a payroll over £3m at a rate of 0.5%.<sup>1516</sup> Employers could then reclaim their levy payment to pay for apprenticeship training – that is, that part delivered by training providers and which was previously met in full by the government. Any monies not recouped goes into a central pot and provides support to non-levy paying employers (covering 95% of training costs). Each apprenticeship standard has a cost attached to it which the provider charges the employer for delivering and which is met out of the employer's levy pot. If the employer is not in scope of the levy, then the cost of training is met by the government with the employer expected to pay 5% of the total cost though there seem to be a number of exclusions (such as for apprentices aged 16-18, or aged 19-24 on an education, health and care [EHC] plan).

Other reforms were also introduced in Spring 2017 including: a requirement that each apprenticeship spend at least 20% of their time in off-the-job training; the RoATP from which employers had to select an apprenticeship provider; and a move to independent EPA with no mandatory requirement for a qualification. Associated with the reforms was a target of 3 million apprenticeship starts by 2020.

Thus, the development of apprenticeships in England over the past two decades has resulted in a programme that is fundamentally different from the original notion of an apprenticeship, and those that operate in other countries, especially those countries which are held up as exemplars of apprenticeship programmes, such as Germany<sup>17</sup>. The traditional notion of an apprenticeship was as a job entry route into occupations for young people, at NVQ Level 3 equivalence, combining on-the-job work experience and skills/knowledge application with off-the-job training with an external training provider. Apprenticeships in England encompass some of these elements but not all. English apprenticeships operate at a variety of levels – from Intermediate

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<sup>15</sup> The apprenticeship levy was introduced within the revamped apprenticeship programme in Spring 2017. It is a levy of 0.5% on the wage bill of employers for those with pay bills of more than £3 million. Using the mean wage, this means that on average employers with more than 100 employees will pay the apprenticeship levy.

<sup>16</sup> Based on the average earnings of full-time employees in the UK, a wage bill of £3 million equates to 104 employees in 2017 and 99 in 2019. The levy threshold has not risen in line with average earnings.

<sup>17</sup> Cedefop (2018), Apprenticeship schemes in European countries: A cross-nation overview

apprenticeships (equivalent to NVQ Level 2) to Degree apprenticeships (Level 6) – and apprentices are available to anyone with an employment contract aged 16 and over.

Furthermore, apprenticeships in England cover a broader range of sectors and occupations than in many other countries, and are increasingly provided by larger rather than smaller employers compared to those in Europe (and historically in the UK).

## **2.4. Apprenticeship trends over the past 20 years**

Following the introduction of the reforms in Spring 2017, there followed a substantial fall in the number of starts. In preceding years, apprenticeship recruitment spiked in September reflecting the start of the FE provider year, after which the monthly start figures fall and then fluctuate at a lower level for the remainder of the year. However, in 2016/17, there was a second spike in recruitment prior to the introduction of the reforms. This was caused by employers wanting to pre-empt and avoid the implications of the changes.

Figure 2 above shows that there was a substantial fall in apprenticeship starts after the introduction of the reforms in May 2017. Apprenticeship recruitment rose for the September intake but this was well below the level in previous years, as has recruitment ever since. Between 2016/17 and 2017/18, the number of apprenticeship starts fell by a quarter (24%). Whilst there was a slight recovery in 2018/19, this latest year is still one fifth below the 2016/17 figure.

### **2.4.1. Apprenticeship starts by level**

Since the millennium, there has been a significant rise in the number of apprenticeships. Figure 7 shows that between 2002/03<sup>18</sup> the total number of apprentice starts more than doubled from just over 167,000 to just under 400,000 in 2018/19. The high point was in 2011/12 when almost 521,000 people started an apprenticeship. The number of starts fell in the following two years (attributed to the withdrawal of 24+ Advanced Learner loans for apprenticeships<sup>19</sup>) but then recovered after 2013/14.

Between 2002/03 and the financial crisis of 2008/09, the number of apprenticeship starts grew by a relatively modest 41%. Between the financial crisis and the peak in 2011/12, the number of starts increase by 117% before a small reduction of 5% to 2016/17 the year prior to the apprenticeship levy and other reforms being introduced. The year after the levy was introduced, apprenticeship starts fell by 24% and then increased slightly in 2018/19.

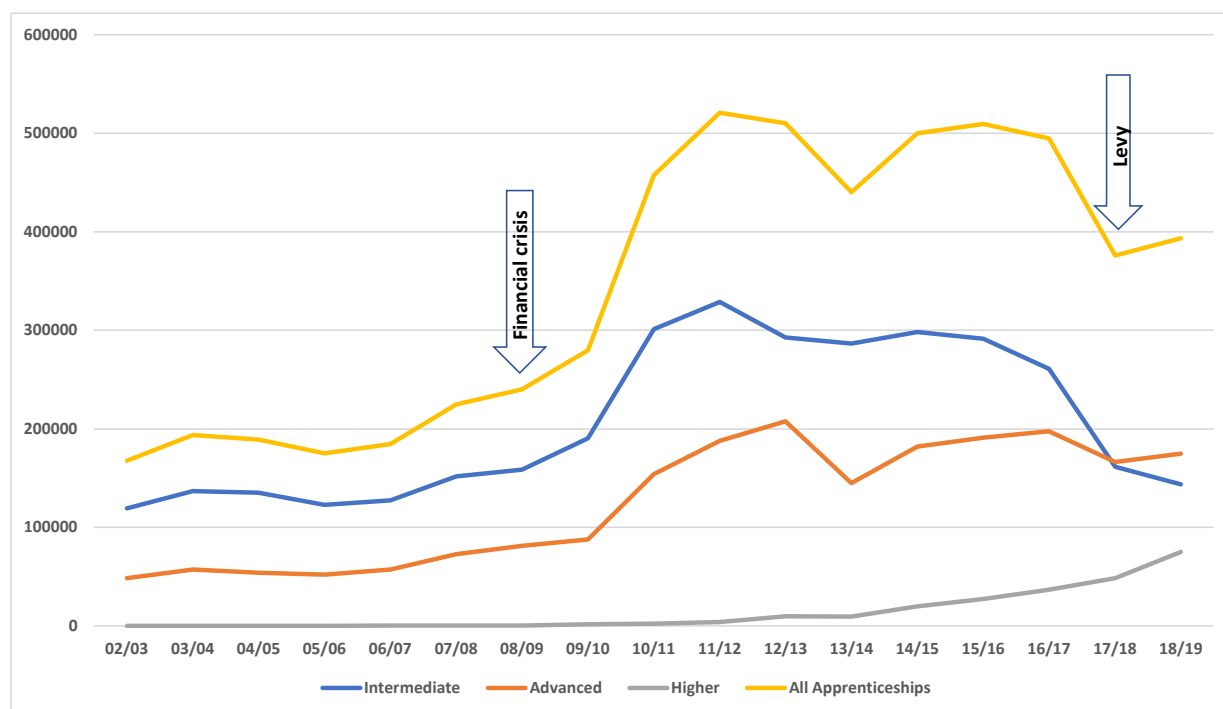
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<sup>18</sup> All years refer to August to July, unless stated differently.

<sup>19</sup> DfE (October 2017), Further Education and Skills in England, SFR 53/2017.



**Figure 7: Number of apprenticeship starts by level 2002/03 to 2018/19**



Source: DfE Apprenticeships and traineeships data various years

Figure 7 also shows that there have also been significant changes in the level of apprenticeships. In 2002/03, almost three quarters (71%) of apprenticeship starts were at Intermediate level (equivalent to NVQ Level 2). By 2018/19 this had fallen to 37%. There was a modest increase in starts at Intermediate level due to the financial crisis, and then a large rise to the peak in 2011/12 (329,000). Since then the number of Intermediate starts has more than halved to just under 144,000 in 2018/19.

The number of Advanced apprenticeship starts (equivalent to NVQ Level 3) followed a similar trajectory through the noughties and into the start of the last decade. The large increase between 2002/03 and 2011/12 was then followed by a decline in numbers to 2017/18, but a slight recovery since then. In 2002/03, just under one third (29%) of all apprenticeship starts were at Advanced level, but this had increased to 44% by 2018/19.

In 2002/03 there were no Higher level apprenticeships (equivalent to NVQ Level 4 and above). The first starts were in 2008/09. Since this time, the number of Higher level starts has increased exponentially so that by 2018/19 they accounted for one fifth (19%) of all apprenticeship starts.

#### 2.4.2. Apprenticeship starts by age

Figure 8 shows that there were also significant changes in the age profile of apprentices. In 2002/03 most apprentices (58%) were aged under 19, 42% were aged 19-24 and there were no apprentices aged 25 and over. In the years after the 2008 financial crisis there was a very large increase in the number of apprentices aged 25+, but also an increase in the number of younger apprentices. The increase in older apprentices after 2010 was, in part, driven by the switching of funding from the Train to Gain programme to apprenticeships.<sup>20</sup> The withdrawal of 24+ Advanced Learner loans for apprenticeships in 2013 led to a fall in the numbers of 25+

<sup>20</sup> Ofsted (October 2015) Apprenticeships: developing skills for future prosperity.

apprentices, but the number of younger apprentices continued around their 2010/11 numbers and proportions until 2015/16 (around one third of apprentices were aged 19-24 and one quarter aged 16-18). Since then the number of 16-18 year old apprentices fell by 26% and 19-24 starts declined by 19%. In 2010/11, 29% of apprentices were aged under 19, 31% were aged 19-24 and 40% were aged 25+. By 2018/19 the respective proportions were 25%, 29% and 46%.

**Figure 8: Number of apprenticeship starts by age 2002/03 to 2018/19**



Source: DfE Apprenticeships and traineeships data various years

The overall changes by age since the turn of the last decade hides some consistent trends within age groups. Table 2 shows that across all of the three age cohorts there was a fall in the number of Intermediate apprenticeships, a modest increase on the number of Advanced apprenticeships, and an exponential increase in the number of

**Table 2: Number of apprenticeship starts by age and level 2010/11 to 2018/19**

Age group	Apprenticeship level	% Change 2010/11-2018/19	Percentage point change 2010/11-2018/19
<b>Under 19</b>	Intermediate	-44%	-18%
	Advanced	14%	14%
	Higher	2118%	4%
	<b>All</b>	<b>-26%</b>	-
<b>19-24</b>	Intermediate	-56%	-29%
	Advanced	9%	12%
	Higher	1409%	17%
	<b>All</b>	<b>-19%</b>	-
<b>25+</b>	Intermediate	-56%	-35%
	Advanced	17%	7%
	Higher	7356%	28%
	<b>All</b>	<b>-1%</b>	-

Source: DfE Apprenticeships and traineeships data various years

### 2.4.3. Apprenticeship starts by Sector Subject Area (SSA)

Figure 9 shows apprenticeship starts since 2002/03 by SSA<sup>21</sup>. In the noughties, the number of starts increased significantly in all SSAs from 2002/03 to 2010/11. Over the last decade (2010/11 to 2018/19) the number of apprenticeship starts rose in four SSAs (Construction, Engineering, Health, public services and care, and ICT) but fell in the remaining three (Business, administration and law, Leisure, travel and tourism, and Retail).

In 2018/19, more than four fifths of apprenticeships were in four SSAs: Business, administration and law (30%), Engineering (15%), Health, public services and care (25%), and Retail (13%). This has been the pattern since 2002/03 with these four SSAs consistently accounting for around four fifths of all apprenticeships. However across the 17 years, within these four SSAs, Business, administration and law, and Health, public services and care increased significantly in relative terms, whilst Engineering and (to a much greater extent) Retail declined.

For school leavers (16-18) there was an increase 2002/03 to 2020/11 in every SSA except Construction and Retail. However, between 2010/11 and 2018/19, the number of apprenticeship starts fell in every SSA except for Engineering for this age group. For young people aged 19-24, there was a significant increase in every SSA from 2002/03 to 2010/11. But from 2010/11 and 2018/19 there was a fall in starts in most SSAs, except for Construction, Engineering and ICT. There were no apprentices aged 25+ in 2002/03. Between 2010/11 and

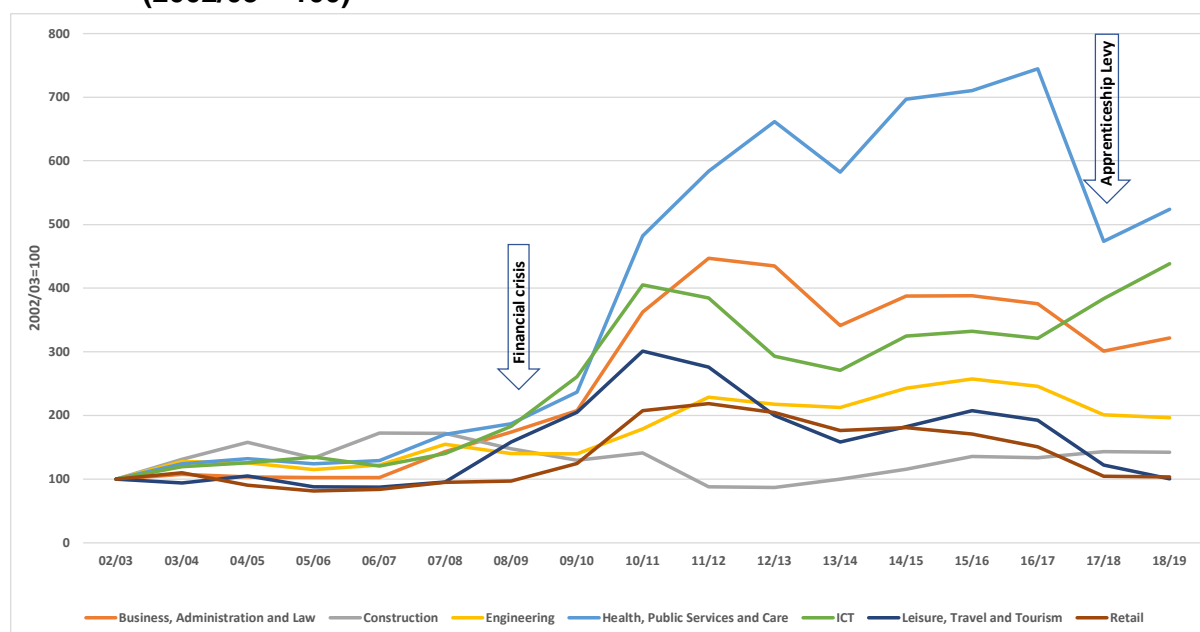
<sup>21</sup> Only those SSAs which have comprised at least 5% of starts in any one year have been included. This has excluded: Agriculture Horticulture and Animal Care; Arts, Media and Publishing; Education and Training; and Science and Mathematics.

2018/19, there was an increase in every SSA for 25+ apprentices except for Leisure, travel and tourism, and Retail.

Between 2002/03 and 2018/19 there was an increase in Intermediate and Advanced level starts in every SSA. However, Intermediate starts fell in every SSA between 2010/11 and 2018/19. At Advanced level, there was an increase in all SSA starts except for Construction, Leisure, travel and tourism, and Retail.

Higher level apprenticeships did not come into existence for most SSAs until 2012/13. But since this date (i.e. 2012/13 to 2018/19) there were three figure percentage increases in all SSAs (except Leisure, travel and tourism where there are very few Higher level apprenticeships).

**Figure 9: Number of apprenticeship starts by Sector Subject Area 2002/03 to 2018/19 (2002/03 = 100)**



Source: DfE Apprenticeships and traineeships data various years

#### 2.4.4. Apprenticeships by employer sector and size

The analysis above shows that in general, across all age groups, levels and SSAs, the number of apprenticeship starts grew in most categories between the beginning and mid point of the last decade. However, in analysing the dynamics of change by employer size and sector we cannot use 2010/11 as the starting point because consistent time series for these variables is only available from 2012/13<sup>22</sup>.

For most sectors (and especially those with large numbers of apprentices) the high point of the period from 2012/13 was in the first year, and this is reflected in Figure 10 which shows the percentage change in apprenticeship starts by industrial sector between 2012/13 and 2018/19. Overall there was a fall in the total number of apprenticeship starts (-19%) over this period. Increases in the Energy, Construction, Information and communication, Professional and

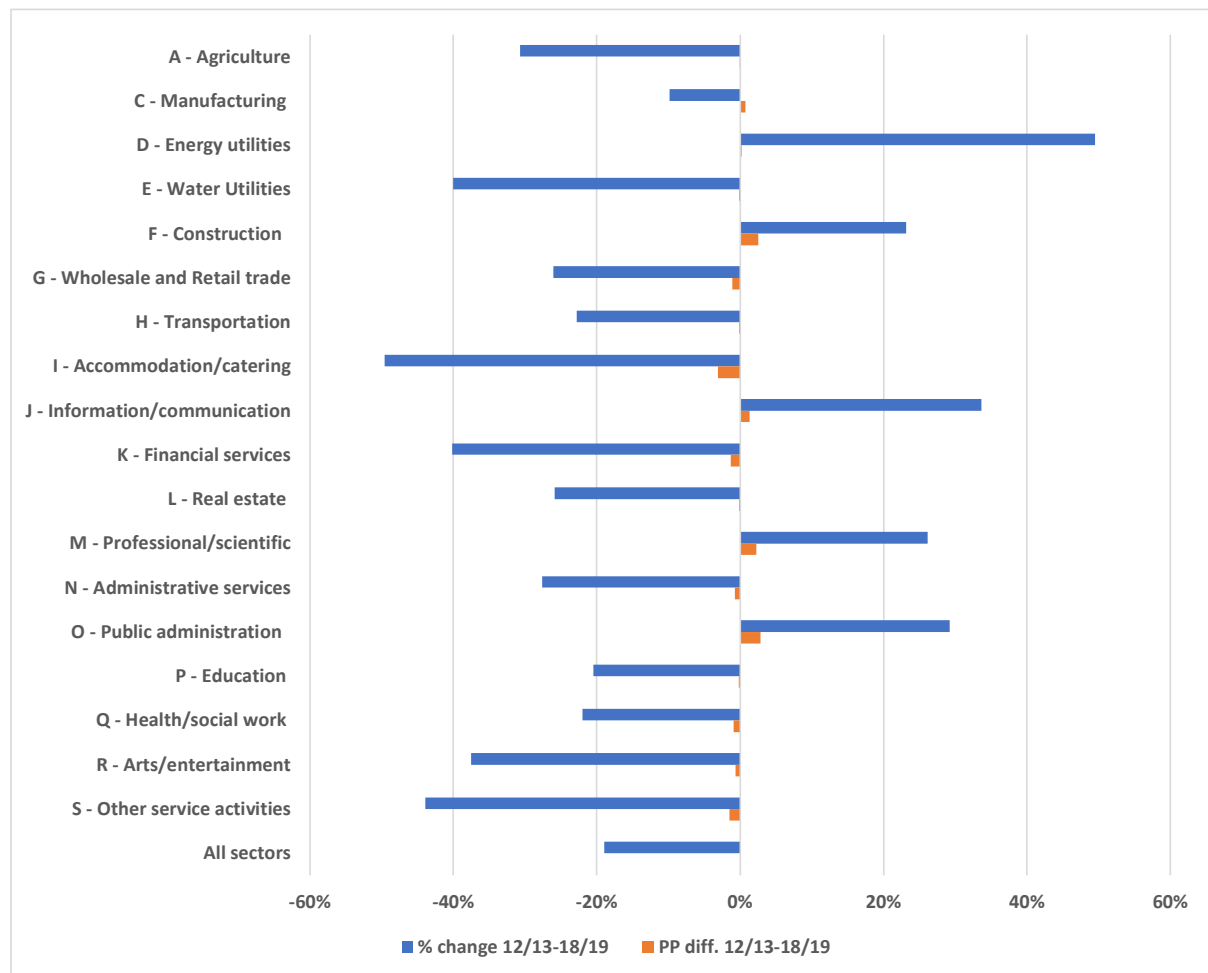
<sup>22</sup> The data is based on matching information from the Individual Learner Record (ILR) and the Inter-Departmental Business Register (IDBR). Data is available prior to 2012/13 but there is a break in continuity after 2011/12.

scientific, and Public administration sectors was more than offset by a fall in the number of starts in every other sector.

Despite the large percentage change over the period, there was little change in the percentage distribution of apprenticeship starts by sector. The percentage point difference in the sectoral distribution of starts shows little change between 2012/13 and 2018/19. Only four sectors – Construction, Accommodation/catering, Professional and scientific, and Public administration – had percentage point changes of more than two percentage points.

However, Figure 10 hides some of the largest absolute changes. There were large decreases in the number of apprenticeship starts in Health and social care (-22,800), Accommodation and catering (-18,280), and Wholesale and retail trade (-14,360) between 2012/13 and 2018/19. The largest numerical increases were in Public administration (6,290), Construction (5,110), Professional/scientific (4,760) and Information/communication (3,020).

**Figure 10: Apprenticeship starts by industrial sector - % and percentage point change 2012/13-2018/19**

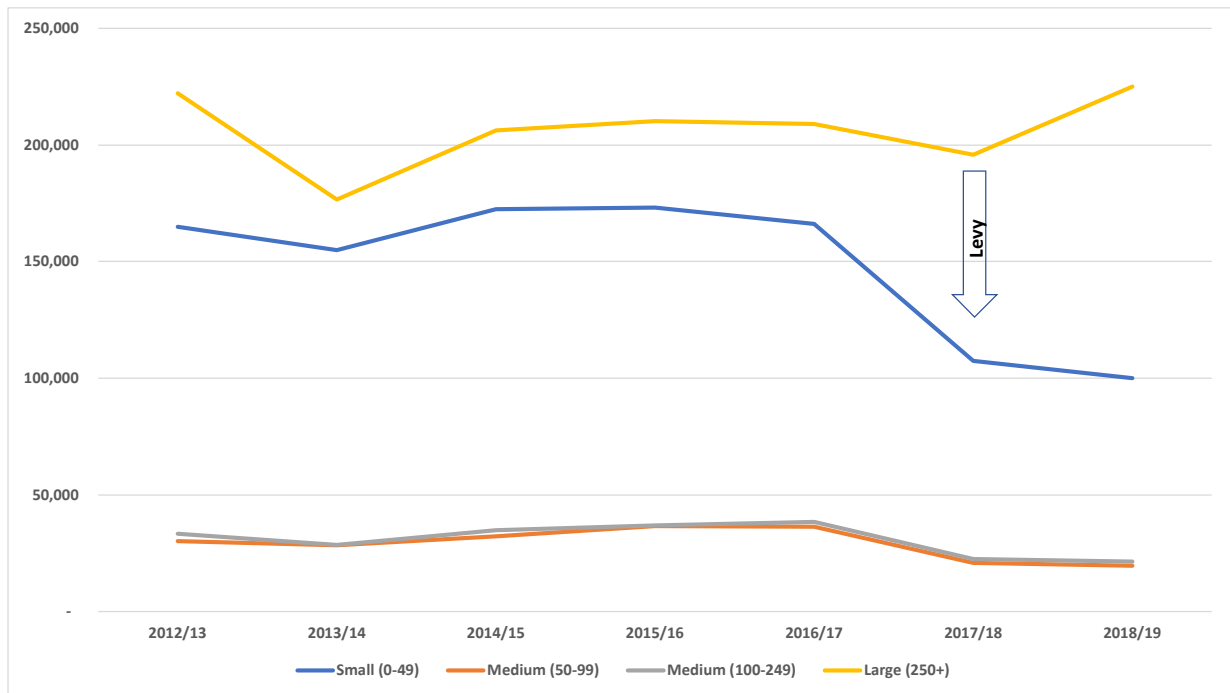


Source: DfE Apprenticeships and traineeships data various years

There were significant absolute and relative changes in the number of apprenticeship starts by employer size. Figure 11 shows that the number of apprenticeship starts was relatively flat for each size category, until 2017/18 when the apprenticeship levy was introduced. After 2016/17, the number of apprenticeship starts in small businesses fell significantly as did those (though to a lesser extent) in medium sized businesses. Apprenticeship starts in large businesses rose dramatically after the levy's introduction.

In 2012/13, 37% of apprenticeship starts were in smaller businesses and 49% were in large employers. In 2018/19, the respective figures were 27% and 61%, a 12 percentage point increase for larger firms and a 10 percentage point decrease for small ones.

**Figure 11: Apprenticeship starts by employer size 2012/13-2018/19**

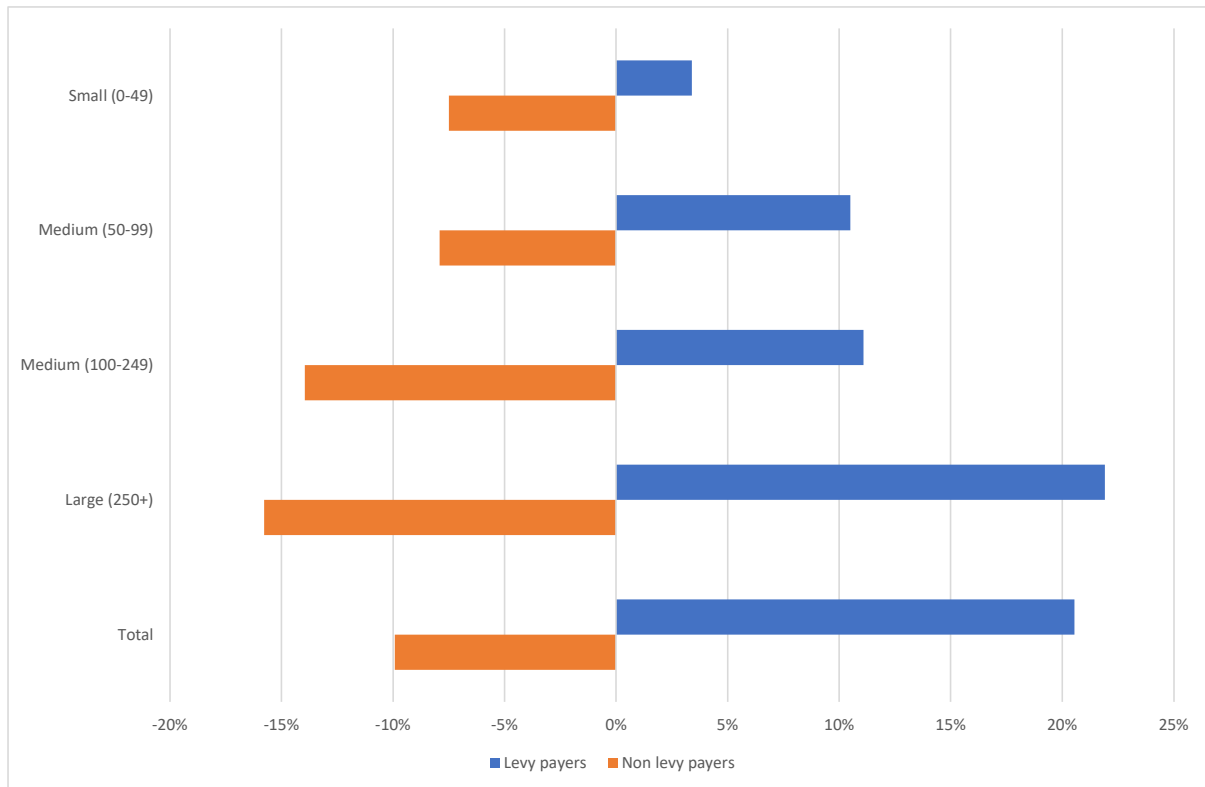


Source: DfE Apprenticeships and traineeships data various years

The introduction of the apprenticeship levy had a significant impact on the behaviour of employers of all sizes. Figure 12 shows the percentage change in apprenticeship starts by levy and non-levy payers within the different employer size bands. The number of apprenticeship starts increased for levy payers in all size bands, and decreased for non-levy payers in all size bands. For example, the number of apprenticeship starts in non-levy paying small organisations fell by 7%, but increased by 3% in small levy paying employers.

A similar pattern emerges when analysing the differences between levy and non-levy payers by industrial sector. The number of apprenticeship starts fell for non-levy payers in every sector (except for Financial services, and Professional/scientific where there were very small increases) and rose for levy payers in every sector (except for mining which has very few apprentices).

**Figure 12: Apprenticeship starts of levy and non-levy payers by employer size – percentage change 2017/18-2018/19**



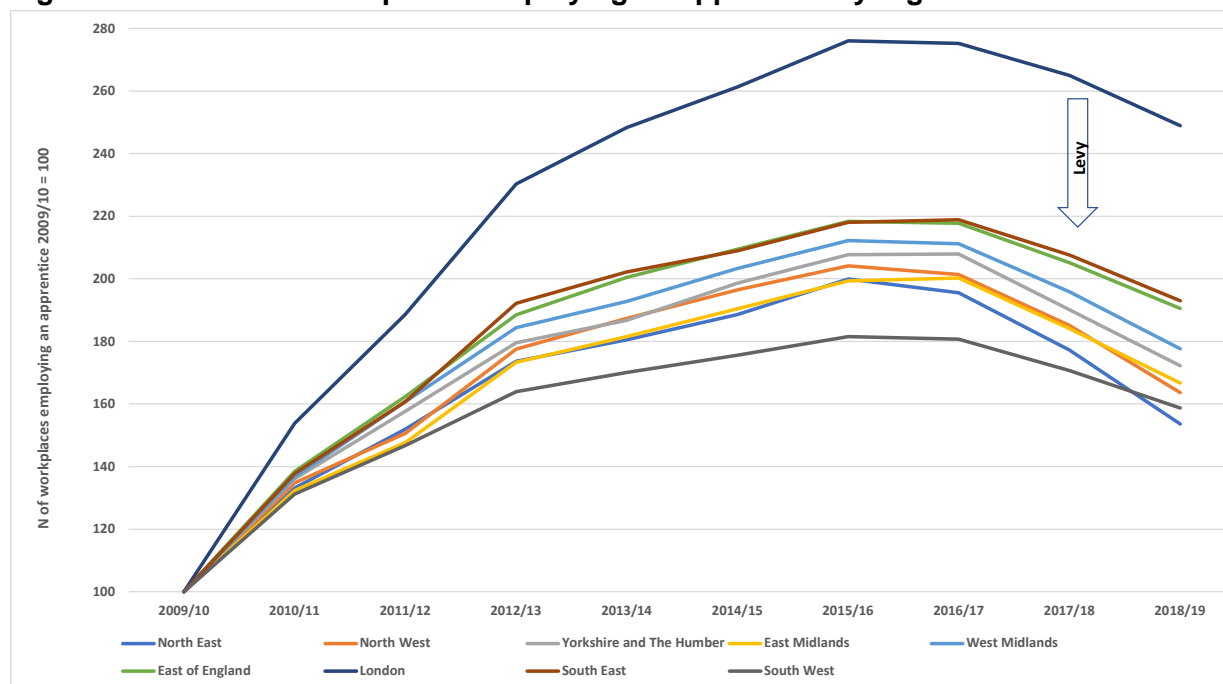
Source: DfE Apprenticeships and traineeships data various years

#### **2.4.5. Apprenticeship participation by workplace**

Since the large expansion of apprenticeships in the previous decade, the number of workplaces employing an apprentice increased by 78% to 2018/19 when just over 222,000 workplaces employed an apprentice.

Figure 13 shows that there was an increase in the number of apprentices in every English region up to 2015/16 in most cases and then a decline to 2018/19. The pattern was very consistent across the regions with an increase of just over 200% from 2009/10 to 2015/16 (except for London which grew by 276%) and then a decline of between 10%-15% to 2018/19 (except for the North West and North East which fell by 20% and 23% respectively).

**Figure 13: Number of workplaces employing an apprentice by region 2009/10 to 2018/19**



Source: DfE Apprenticeships and traineeships data various years

The growth in workplaces employing apprentices was as a result in business expansion over the first part of the last decade. Despite the expansion in the levels of apprenticeships, and an expansion of the frameworks available, the proportion of businesses employing an apprentice remained stable, around 10%-12% across England. In London, whilst there was the largest expansion of workplaces employing an apprentice, the proportion remained at 5% throughout the decade. The North East, North West, Yorkshire and the Humber, and the West Midlands saw the greatest expansion in the proportion of workplaces employing an apprentice to 2015/16. However, all of these regions then saw a decrease in the incidence of workplace apprenticeships to 2018/19.

The impact of the introduction of the apprenticeship levy was consistent across all sizes and sectors. Between 2017/18 and 2018/19, the number of enterprises employing at least one apprentice grew by 14% for all levy payers, and there was an increase of at least 9% for all size categories of levy payers. The reverse was true for non-levy payers where the number of businesses employing at least one apprentice fell in every size category for non-levy payers.

Over the same period, the number of businesses employing at least one apprentice grew in every sector for levy payers but fell in every sector for non-levy payers (except for Administrative services where there was a small increase.)

Therefore, the introduction of the apprenticeship had a significant impact on the level and take-up of apprenticeships in every business, even controlling for size and sector.

## 2.5. The Introduction of the apprenticeship levy

The announcement of the levy's introduction might be considered surprising insofar as successive governments had previously regarded training levies as leading to training for which there might not be a demand. In other words, it would reinforce the supply-side approach which the Leitch Review sought to dismantle (Leitch, 2006). On the other hand, given that employers are essentially reclaiming their own money to train and there is sufficient flexibility in the system



for apprenticeships to satisfy a wide range of employer requirements with the move from frameworks to standards, there is every reason to believe that employers might well look to reclaim their funding and use it to meet a demand within their businesses. In this way, the levy would encourage demand-led behaviour.

As we have seen, the levy seems to have dampened the demand for apprenticeships, and a shift towards employers investing more in higher level apprenticeships which are more costly. For example, a Level 6 apprenticeship in Building Services Site Management will cost the employer a maximum of £18,000 compared with a Level 2 in bricklaying which will cost a maximum of £9,000. Although there is room for the employer to negotiate a price lower than the maximum available, the evidence seems to suggest that providers charge the maximum allowed which employers are reconciled.<sup>23</sup>

The commentary above suggests that the ability of the levy to increase training volumes will be determined in large measure by the cost-benefit calculations which employers make. Currently the evidence indicates that the overall amount of funding which the government makes available for apprenticeship training is not a constraint. This overall amount is set by DfE from funds allocated by the Treasury (which collects the levy payments). This was set in 2015 and was broadly set at the predicted level of levy receipts. The overall amount of funding raised from the levy has to pay for:

- The government's contribution to apprenticeships for non-levy payers; and
- The costs of running the apprenticeship service.

DfE initially assumed that around half of all employers would draw down their levy funding, but in practice it has been much lower than this with the result that there is a substantial surplus available which will expire after two years and then enter the Treasury's coffers (Marsh, 2020). This would suggest that the overall amount of funding available would not appear to be a constraint on participation levels. In fact much of the evidence points to the amount of funding available for apprenticeships increasing in real terms over the past ten years or so: from around £1.31 billion in 2009/10 to £1.97 billion in 2019/20. In the latest year for which data are available (2019/20), spending on apprenticeships rose by around 10% in real terms (Britton et al., 2020). The evidence also points to the number of apprenticeships starts increasing at higher levels i.e. those apprenticeships where the amount paid by the state is relatively high which suggests that funding could be a constraint on future growth in the number of apprentices.

## **2.6. Conclusion**

The potted history of apprenticeships presented above reveals the way in which policy makers have sought to establish an apprenticeship system that can meet a plurality of skill needs. Funding was designed to ensure that training met a demand for skills in the workplace or wider labour market with employers granted a degree of flexibility as to how they structured training so that it fitted in with their needs. At first glance, the levy seemed to mark a break with long run development of apprenticeships since 1994. That development path was a demand-led one, whereas the levy looks like a supply-side initiative. In retrospect, the levy can be seen as consistent with that long run development in that: (a) creates an incentive for employers to train; and (b) because it does little to reduce the net costs of training to the employer, maintains the pressure on employers to engage in training which will produce skills of economic value (or at

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<sup>23</sup> IFF Research (February 2020) op. cit.

least allow them to break even on the training investment). Because it potentially increases the cost of training to the employer of engaging in apprenticeships, it may well make them more discerning investors. This might be regarded as a positive within an overall skills system which is very much demand-led. But other things being equal, this points to levy paying employers being less likely to take on apprentices unless they can reconfigure (or lower) their costs of training. This is not necessarily a negative outcome if there are alternatives available for would-be apprentices which are capable of generating at least the same level of private and public return as apprenticeships.

### 3. Trends in Apprenticeships pre- and post-levy

#### 3.1. Introduction

Surveys of both apprenticeship employers and learners have been undertaken regularly throughout the last decade and so provide a useful insight into changes in behaviour of both groups.

The latest EAS was published in 2020. This survey was published in 2020 but is based on survey fieldwork December 2018-March 2019<sup>24</sup>. The survey asks employers about people who completed their apprenticeships (apprenticeship completers) during February-September 2017 i.e. at the time of the introduction of the apprenticeship reforms. These apprentices would have been recruited at least nine months before the reforms were introduced.

As a long running survey, the EAS has the potential to explore the relationship between employer size and apprenticeship recruitment to see if the recent developments to larger organisations as apprenticeship employers is part of a longer term trend or due to the impact of the levy. However, the EAS reports on workplaces rather than organisations as a whole. Whilst the most recent survey in 2018/19 provides a breakdown of the employment size of the organisation as a whole (and whether they do or do not pay the levy), none of the earlier surveys do, which prevents an analysis over time.

The most recent EAS did ask employers their awareness of the 2017 apprenticeship reforms and how they may impact on their recruitment plans. In addition, the EAS asked a number of questions specifically about the benefits and costs of apprenticeships, and specific questions concerning Degree apprenticeships.

#### 3.2. Apprenticeship engagement and recruitment

Levy payers were longer standing apprenticeship employers with just over half (54%) of levy payers having offered apprenticeships for more than five years compared to 48% of non-levy payers. Levy payers were more likely to begin to offer apprenticeships in order to train existing employees (38%) compared to non-levy payers (29%). Non-levy payers were more likely to start offering apprenticeships in order to attract new staff (34% compared to 27% of levy payers).

Not surprisingly, levy payers were more likely to be influenced by the prospect of paying the levy. One in ten levy payers said they began offering apprenticeships due to the incoming levy compared to fewer than 1% of non-levy payers. Whilst this may appear to be a small proportion of levy payers overall, the question was asked of when employers *began* to offer apprenticeships. The question is therefore likely to refer to employers beginning to offer apprenticeships in the last few years, and as such constitutes a much larger proportion of such levy payers starting to offer apprenticeships more recently.

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<sup>24</sup> The survey fieldwork is usually undertaken about a year before the reports are published. Therefore the surveys on which the reports are based were undertaken in November-December 2011, January-March 2014, and December 2018-March 2019 respectively. To further complicate matters, employers are asked to discuss apprentices who completed their programme several months earlier, so that the impact of apprenticeships can be assessed. For example, the 2018/19 survey asked employers about apprenticeship completers who finished their programmes during February-September 2017. The 2014 and 2012 surveys asked about apprenticeship completers during August 2012-March 2013 and August 2010-March 2011 respectively.

Levy payers are more likely to use apprenticeships to train older and existing employees, whereas non-levy payers prefer to recruit younger (especially 16-18) people and new appointees on to apprenticeships. Almost three quarters (73%) of levy payers have or have offered apprenticeships to older people (aged 25+) compared to less than half (43%) of non-levy payers.

The responses given by both levy and non-levy payers provided for not offering apprenticeships to 16-18 year olds concerned relevance. Most respondents in both groups of employers said that they weren't able to recruit/offer apprenticeships to 16-18 year olds because they could not employ 16-18 year olds in their work or did not get suitable applicants. Non-levy payers said they were more likely to recruit 16-18 year olds if they were given financial incentives to do so.

Consistent with the analysis above, levy payers were more likely to recruit existing employees on to apprenticeships. Over two thirds of non-levy payers (68%) recruited externally for their current apprentices compared to 60% of levy payers.

The reasons for offering apprenticeships to existing employees vary between levy and non-levy payers. Levy payers are more likely to use apprenticeships to prepare employees for a new job (52% compared to 42% of non-levy payers), whilst non-levy payers were more likely to use apprenticeships to improve employee's skills in an existing job (48% and 57% respectively).

### **3.3. Apprenticeship costs and benefits**

Central to theories of why employers recruit apprentices are costs and benefits. Employers will recruit apprentices as long as benefits exceed costs. The EAS provides insights into how these vary between levy payers and non-levy payers.

In terms of benefits, the majority of all employers (63%) are very satisfied with apprenticeships with only 6% dissatisfied (see also Dickinson, March 2020). Levy payers are marginally more likely to be very satisfied than non-levy payers (67% and 61%), and less likely to be dissatisfied (4% compared to 7% of non-levy payers). Across a range of components within the apprenticeship programme – quality of the training, quality of applicants, assessment, flexibility, influence and bureaucracy – at least two thirds of employers are very satisfied and this differs little between levy payers and non-levy payers. The highest satisfaction ratings were for provider components i.e. the quality of the training, and assessment, provider flexibility in training and assessment, and provider support and communication. There was little difference in the median scores provided by levy payers and non-levy payers.

Employers were able to identify a range of benefits from offering and training apprentices, as Figure 14 shows. Virtually all levy payers (98%) and non-levy payers (96%) were able to identify at least one benefit from apprenticeships, with levy payers on average identifying seven and non-levy payers naming six.

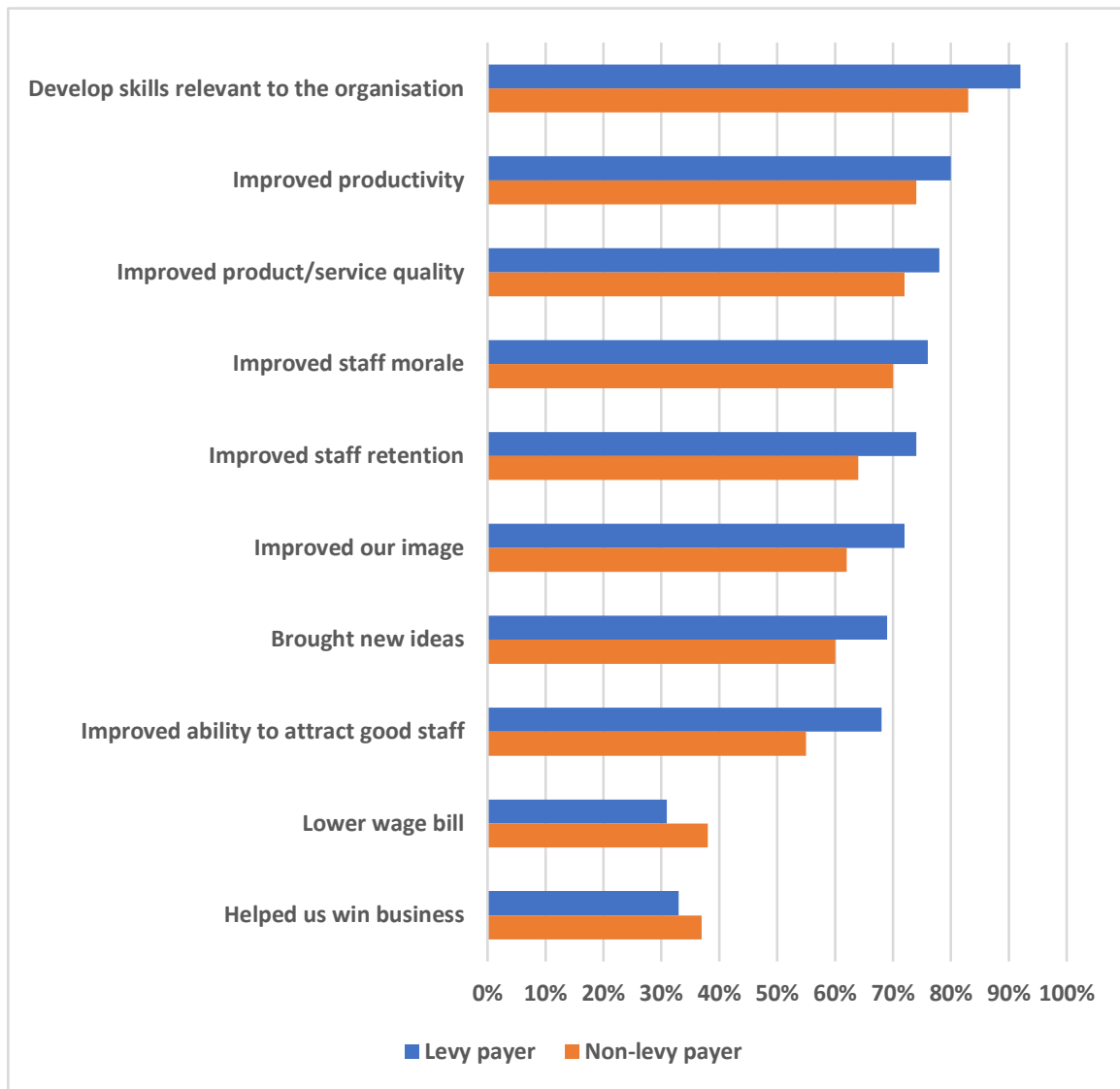
At least 70% of both levy payers and non-levy payers identified: developing skills relevant to the organisation; improved productivity; improved product/service quality; and improved staff morale. On each of these dimensions, levy payers tended to be more positive than non-levy payers. However, non-levy payers were more likely to identify reduced wage costs, and helping to win business compared to levy payers.

Only 2% of levy payers and 4% of non-levy payers said there were no benefits or they did not know. When asked if there was anything the organisation would have liked to change about

the content, structure, delivery or duration of the Apprenticeship training, 68% of levy payers and 62% of non-levy payers responded 'nothing'. Of areas to change no dimension scored 10% or more across all employers. Only one dimension - course more specific / relevant to our organisation's needs – scored 10% for non-levy payers.

Whilst employers do not provide an indication of the size of these benefits, it is clear from the satisfaction ratings as well as the identification of a range of benefits that apprenticeships deliver a number of positive returns to employers. These tend to be slightly greater for levy payers than non-levy payers.

**Figure 14: Benefits to the organisation from offering and training apprentices**



Source: DfE Apprenticeship Evaluation Employer Survey 2018/19

There are few questions in the EAS which ask about the costs or the negative effects of apprenticeships. One of the main cost of an apprenticeship is being able to recoup the benefits from the skills the apprentice has developed. The survey asks employers if the apprentices that recently completed are still with the organisation. Most employers – 60% of levy payers and 58% of non-levy payers – said that all of their apprentices were still employed.

Levels of retention are higher amongst levy payers than non-levy payers, although this may reflect the fact that the latter recruits younger people and new appointees, and levy payers

use apprenticeships for current staff. Almost two out of five (39%) non-levy payers had had an apprentice completer leave their organisation compared to 29% of levy payers.

In most cases the decision to leave was the apprentice's, with almost three quarters (74%) of levy payers and four out of five (79%) non-levy payers reporting that it was the apprentice's decision. In most cases, the reason for the apprentice leaving (mentioned by the employer) was because the apprentice wanted to go into another sector, they wanted better promotion/career prospects, higher pay, or for personal reasons. The proportion of levy payers and non-levy payers reporting these reasons was very similar.

### 3.3.1. Future recruitment plans

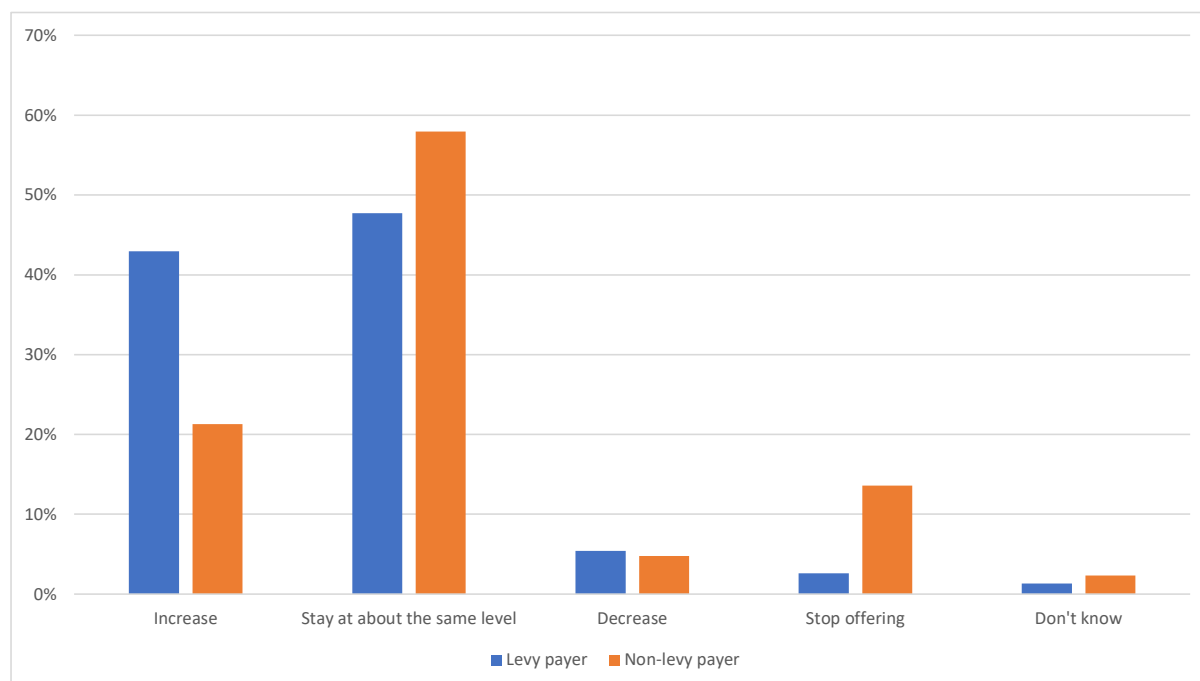
A good indication of whether employers get net value from an apprenticeship is whether they will increase or reduce their apprentice numbers in future.

Levy payers were much more likely to carry on offering apprenticeships. Almost all levy payers (93%) planned to carry on offering apprenticeships compared to 79% of non-levy payers.

Figure 15 shows there was expected to be a net increase in the number of apprentices that employers recruited. However, whilst more employers were likely to increase than decrease their apprentice numbers, most were likely to keep them at the same level. Apprenticeship numbers are expected to increase because the net increase was greatest for employers with larger numbers of apprentices.

Levy payers were more likely to expand their numbers of apprentices (43% said they were likely to increase) compared to non-levy payers (21%). Only 5% of levy payers and non-levy payers were likely to decrease their numbers. However, 14% of non-levy payers said they would stop offering apprenticeships.

**Figure 15: Expected number of apprentices in the next 2-3 years**



Source: DfE Apprenticeship Evaluation Employer Survey 2018/19

The main reason given by both levy payers and non-levy payers for expanding the number of apprentices was due to business expansion. This was more likely to be mentioned by non-

levy payers (58% compared to 45% for non-levy payers). The second most important reason (38% of non-levy payers and 32% of levy payers) was because apprenticeships were a good way of training their staff. The only other reasons to garner more than one in ten employer responses were both from non-levy payers: 12% of non-levy payers said so they could claim back their levy, and 11% said it was now easier to recruit apprentices.

Most non-levy payers and levy payers were keeping apprentices at the same level due to business conditions, and because of low staff turnover.

There was less unanimity in the reasons given by employers for reducing apprentice numbers. For non-levy payers, over one in five (22%) said it was because they are not recruiting new staff, 16% said it was due to the business contracting, and 13% said it was because staff were fully skilled. For levy payers, the largest number (19%) said it was due to changes in apprenticeship funding, 15% said it was because staff were fully skilled, and 15% said it was because they could not afford to.

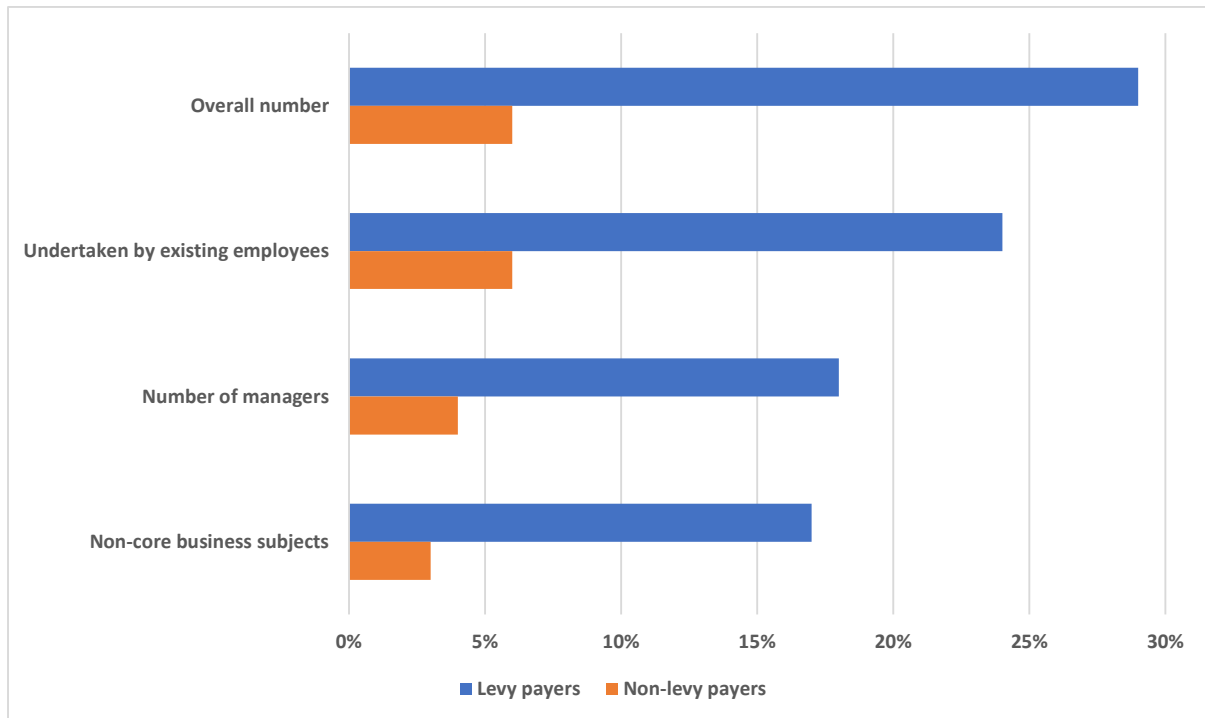
Most employers were aware of the 2017 policy reforms. However, whilst fewer than one in five (18%) non-levy payers was unaware of the changes almost two in five (38%) of levy payers were unaware. More than two-thirds of non-levy payers were aware of all of the specific apprenticeship reforms with the exception of additional funding for recruiting apprentices from disadvantaged areas/groups. Non-levy payers were most aware of the introduction of the levy (51% of those aware of the reforms), the non-levy payer contribution of 10% to the costs of the apprenticeship (50%) and the 20% off-the-job training requirement (43%).

For non-levy payers who were aware of the reforms, there was little impact of the reforms on recruitment plans. Over four out of five (83%) of non-levy payers said they would keep apprentice numbers at their current level, 6% would increase, 5% decrease and 3% would stop altogether. Most levy payers aware of the reforms (60%) said they would keep numbers the same, with 28% predicting a rise, 6% a fall and 2% stopping apprenticeship recruitment altogether.

Figure 16 shows, for employers aware of the reforms, the impact of those reforms on apprenticeship numbers by levy and non-levy payers. Overall, non-levy payers were much more likely to expand apprenticeship numbers than levy payers. Non-levy payers were more likely to increase the number of existing employees on apprenticeships compared to levy payers specifically. The 2017 reforms are having little impact on non-levy payers either overall or in terms of the specific make up of apprenticeships.

The increase in number of apprentices amongst non-levy payers is likely to be split across the expansion of existing apprenticeships and starting to provide other types of apprenticeships. Just over one third of employers said they would increase apprentices in existing levels of apprenticeships, 29% said they would introduce new levels, and 31% said they would introduce new standards.

**Figure 16: Impact of reforms on apprenticeship numbers on employers aware of the reforms - % increase in starts**



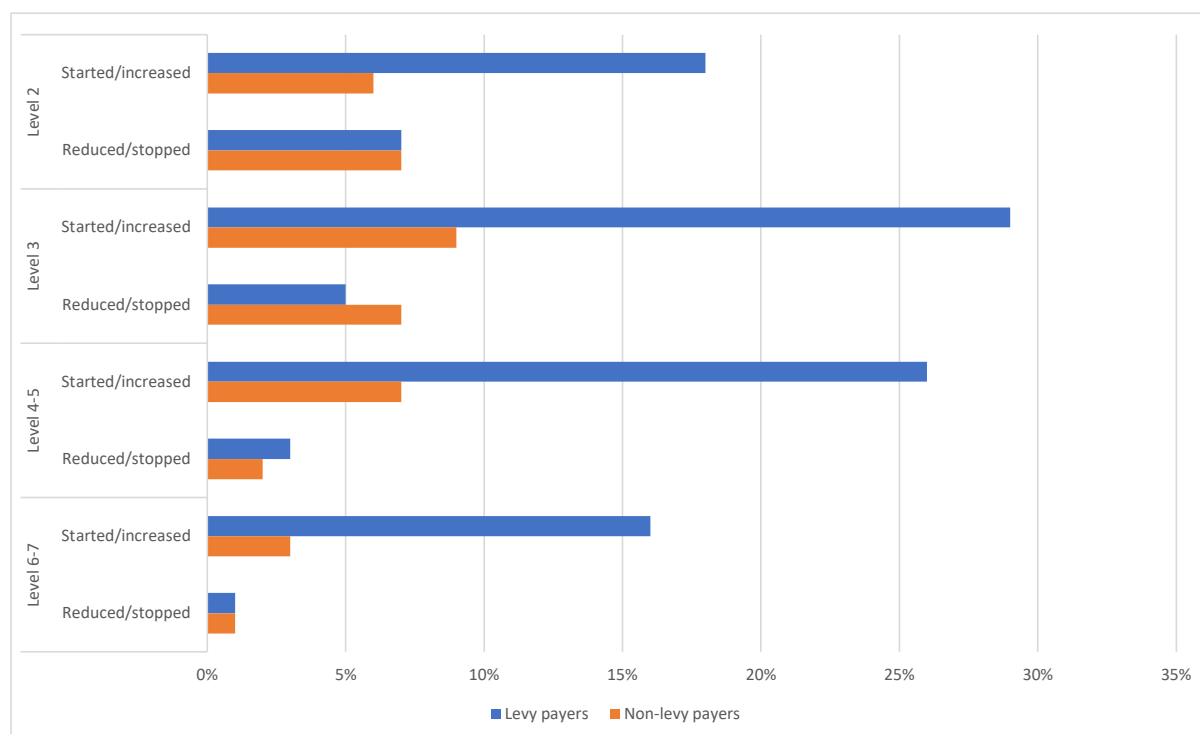
Source: DfE Apprenticeship Evaluation Employer Survey 2018/19

Figure 17 shows the expected of the reforms on the level of apprenticeships by employers who were aware of the reforms. Levy payers were much more likely to have started or increased apprenticeship levels as a result of the reforms than non-levy payers. Just under one third of levy payers (29%) had started or increased apprenticeships at Level 3 and 26% at Level 4-5. Around one in five (18%) had started or increased Level 2 apprenticeships and 16% at Levels 6-7.

There are similar levels of responses from levy payers and non-levy payers in terms of reducing or stopping different apprenticeship levels. Therefore the net impact of the reforms overall and on specific levels of take-up are positive for levy payers. However, for non-levy payers they are negative for Level 2 apprenticeships, break even for Levels 3, and 6-7, and positive for Level 4-5.



**Figure 17: Changes in level of apprenticeships on employers aware of the reforms**



Source: DfE Apprenticeship Evaluation Employer Survey 2018/19

### 3.4. Degree apprenticeships

The AES 2018/19 asks employers questions about Degree apprenticeships, however, data is not broken down by levy payer/non-levy payer. Furthermore, the information provided by employer size is for 1-49 and 50+ and so the proxy measure for levy/non-levy payer cannot be used either.

Almost two in five employers who had a degree apprentice in August 2018 (37%) were in the Professional, scientific and technical sector. The next largest sector is Human health and social work with 10% followed by Manufacturing (9%), Wholesale and retail trade (8%), and information and communication (8%). Business administration and law was the subject area for almost two thirds (62%) of employers, and almost one in five in construction, planning and the built environment (17%).

Almost two thirds of employers (65%) recruited their Degree apprenticeships from existing employees, 42% specifically recruited their apprentice and started them straight away, and 15% specifically recruited their apprentice and started them after a delay.

One quarter of employers said they recruited to Degree apprenticeships due to the levy (the highest response). Degree apprenticeships were a replacement for graduate recruitment in a minority of cases (15%) with four-fifths of employers (81%) saying they weren't a replacement. However, almost two in five employers said Degree apprenticeships did replace other forms of training (37%).

The large majority of employers (84%) planned to continue offering Degree apprenticeships with 12% undecided. Two out of five employers (42%) planned to increase their degree apprenticeship numbers with 57% saying they will remain at the same level. In addition, almost half (48%) of employers were planning to expand Degree apprenticeships into new subjects or levels.

### 3.5. Profile of employer apprenticeship behaviour post-reforms

This section provides an analysis of available employer data post-apprenticeship reforms and before the impact of the pandemic. It is based on the most up to date large scale national survey of employer's apprenticeship behaviour, the ESS 2019. Fieldwork was undertaken June-December 2019 and so provides a comprehensive overview of employer pre-pandemic apprenticeship activity<sup>25</sup>.

### 3.6. Apprenticeship engagement and recruitment

In 2019, according to the ESS, 11% of employers<sup>26</sup> had some staff undertaking an apprenticeship (similar to that recorded in the apprenticeship data - see Section 2.4.4 above). In addition, a further 9% of employers offered an apprenticeship but did not currently employ one, and an additional 7% had an apprentice or offered one in the past three years. Therefore, just over one quarter of businesses in England (28%), had currently employed an apprentice, currently offered an apprenticeship, or had done so in the past three years.

The survey confirms some of the analysis in earlier sections, especially the increased likelihood of having an apprentice the larger the employer. Figure 18 shows that more than four out of five (80%) large employers (250+) currently employed an apprentice, offered an apprenticeship, or had done so in the past three years. This compares with 60% of medium sized organisations (50-249) and one quarter of small firms (2-49).

Not only are larger firms more likely to take on an apprentice, when they do they are much more likely to take on larger numbers. On average, the larger firms in the ESS currently employed 28.5 apprentices compared to 4.2 in medium sized firms and 0.8 in small firms.

Employer size is the most important factor in whether an organisations takes on an apprentice, and the number of apprentices they recruit.

The ESS does not differentiate between levy and non-levy payers but a proxy based on average earnings can be employed. In 2019, according to the ONS<sup>27</sup>, the average annual salary was £30,420. Using the levy wage bill threshold, this equates to 98.6 employees. The ESS provides data on organisations employing greater and lesser than 100 people. Using employment size as a proxy for levy/non-levy payers, the ESS shows that three quarters of 100+ employers currently have/offer apprenticeships or have done in the past three years, compared to one quarter of <100 employers. Employers with 100+ employees recruit an average of 12.2 apprentices compared to 1.1 for those with fewer than 100.

The other two factors most related to apprenticeship offer and recruitment, and the number of apprentices are type of organisation and whether it has a vacancy or skills problem.

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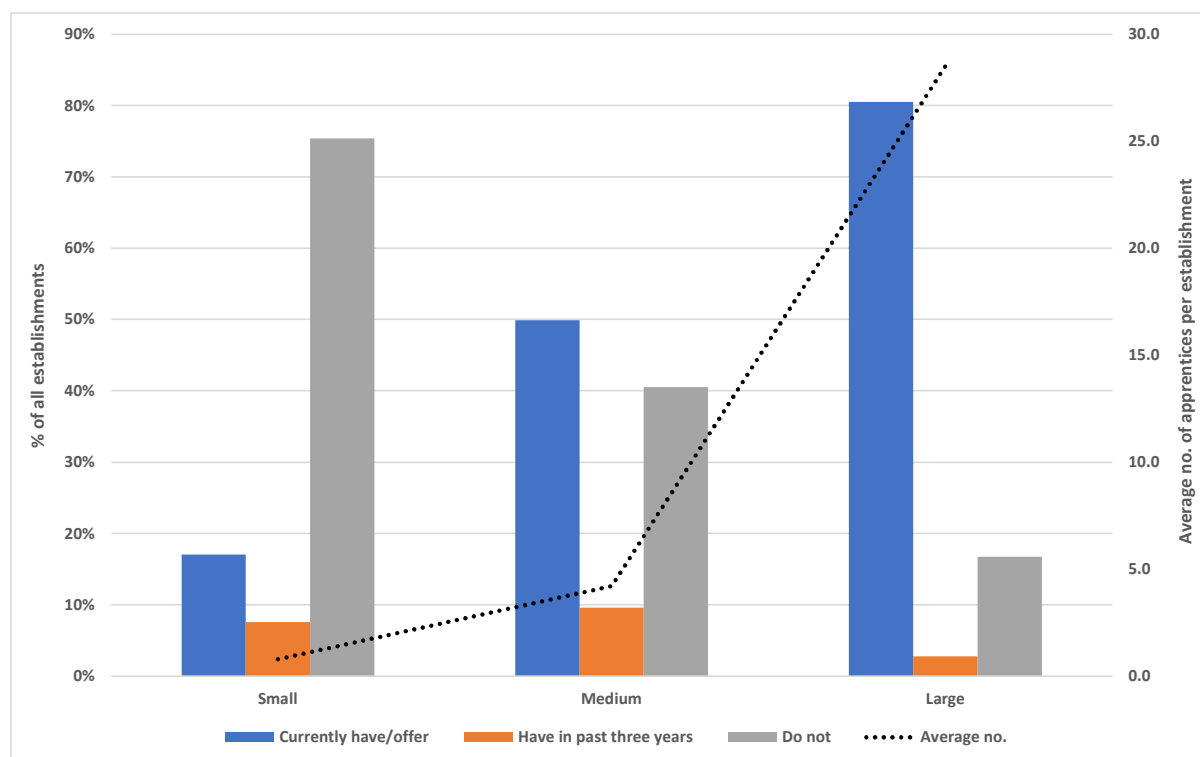
<sup>25</sup> In 2019, the Employer Skills Survey merged the previous National Employer Skills Survey (NESS) and Employer Perspectives Survey (EPS), the latter included questions specifically about apprenticeships. However, no time series analysis is available as the sample size of the EPS was much smaller than that of the 2019 Employer Skills Survey.

<sup>26</sup> Employers were asked questions of the site they were located at. This could include, for example, branches of larger organisations.

<sup>27</sup>

<https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/earningsandworkinghours/bulletins/annualsurveyofhoursandearnings/2019>

**Figure 18: Apprenticeship recruitment/offer and average number recruited by establishment size 2019**



Source: Employer Skills Survey 2019: England data tables

The survey also shows the importance of the public sector for the apprenticeship programme. Government (local and central) funded services are twice as likely to deliver apprenticeships (21%) compared to other organisations. The Public administration and Education sectors are much more likely than other organisations to take on and/or offer apprenticeships. For example, half of Education employers (46%) had and/or offered an apprenticeship or had done so in the past three years compared to 26% of other employers. These sectors were also likely to take on the greatest number of apprentices. Government funded services took on an average of 2.9 apprentices per establishment, compared to 0.8 overall. The largest for profit sectors were Manufacturing (1.2), and Information and communication (1.0).

Government funded services are more likely to be larger organisations and, since 2017, have been set additional targets for recruiting apprentices<sup>28</sup>. Whilst 3% of for profit establishments employ more than 100 people, around one in ten (11%) Government (local and central) funded service employers do so.

Employers with vacancy or skills problems – hard to fill vacancies, skill shortage vacancies or skills gaps – were twice as likely as other organisations to deliver or offer apprenticeships. These types of organisation recruited, on average, more than three times as many apprentices as other organisations.

<sup>28</sup> The guidance states that: “Prescribed groups and public sector bodies with 250 or more staff in England have a target to employ an average of at least 2.3% of their staff as new apprentice starts over the period of 1 April 2017 to 31 March 2021. Bodies in scope must have regard to the target.” DfE (September 2020), Meeting the Public Sector Apprenticeship Target.

Whilst smaller employers are less likely to recruit apprentices, they are important for the recruitment of younger apprentices. According to the ESS, small employers (particularly those employing up to 24 people) are more likely to recruit 16-18 year olds, and to rely on this age group as the sole source of apprenticeships. They are three times as likely as medium sized firms (employing 50-249) and twice as likely as large firms (employing 250+) to recruit 16-18 year olds only, and 15 percentage points more likely to only recruit younger people (18-24). Using the proxy for levy/non-levy payers, employers with fewer than 100+ employees are three times as likely to recruit 16-18 year olds only, and twice as likely to only recruit younger people compared to those with 100+ employees. For profit organisations are more likely to recruit 16-18 year olds, and more than twice as likely to only recruit young people.

Larger employers are also less likely to recruit new external people on to apprenticeships and more likely to recruit existing employees. Employers with more than 100 employees were twice as likely to recruit existing employees on to apprenticeships whereas those with fewer than 100 employees were more than twice as likely to recruit new employees specifically as apprentices.

Given that larger employers are more likely to recruit older people and existing employees on to apprenticeships, it suggests that larger employers see apprenticeships in terms of *continuing* vocational education and training (CVET) whereas smaller employers are more likely to see apprenticeships in terms of *initial* vocational education and training (IVET).

For those employers who had started to offer apprenticeships in the past three years, smaller employers (<100) were more likely to give reasons around acquiring talent (e.g. recruiting skilled staff or giving opportunities to younger people) than larger employers (100+), the respective figures were 51% and 38%. Larger employers were more likely to start to take on apprentices for economic reasons (36% compared to 7%). The most important reason given by larger employers for beginning to recruit apprentices was because of the apprenticeship levy (31%) compared to 4% for smaller employers. Acquiring talent reasons were also more likely to be given by employers with vacancy or skills problems.

Smaller employers (<100) were more likely to give structural reasons for not currently offering apprenticeships (62% compared to 44% for 100+ employers). The primary reasons were: apprenticeships were not suitable due to the size of establishment (21% of <100 employers); not looking to recruit new staff (19%); and staff are fully skilled (13%).

### **3.7. Impact of apprenticeship reforms**

The ESS 2019 asked apprenticeship employers whether the 2017 reforms had impacted on apprenticeship recruitment.

Table 3 shows whether the 2017 apprenticeship reforms had impacted on employer behaviour by the two employment size categories used as a proxy for levy/non-levy payer. The impact on larger employers (100+) overall was three times greater than smaller organisations (<100). In most of the specific question areas the impact of the reforms was around twice as great on larger employers, in particular an increase in the total number of apprentices. However, in no area did the reforms impact on more than a third of larger employers.

**Table 3: Impact of the 2017 apprenticeship reforms on employer behaviour by size**

Whether, as a result of recent reforms to apprenticeships there has been any change to:	<100	100+
<b>The overall number of apprentices (% yes)</b>	10%	32%
<b>Proportion undertaken by existing employees (% yes)</b>	19%	27%
<b>Number of managers on apprenticeships (% yes)</b>	11%	19%
<b>Starts in subjects outside core business areas (% yes)</b>	11%	20%
<b>Increase in total number of apprentices (% saying increase)</b>	10%	23%
<b>Increase in proportion of existing employees (% saying increase)</b>	8%	17%
<b>Increase in managers on apprenticeships (% saying increase)</b>	6%	14%
<b>Increase in starts outside core business (% saying increase)</b>	4%	11%

Source: Employer Skills Survey 2019: England data tables

### 3.8. Future apprenticeship recruitment plans

The trajectory of apprenticeship recruitment has been towards larger firms. When asked whether apprenticeship numbers at the establishment had changed since they were first introduced, larger apprenticeship employers were more likely to say that they had increased (45%) compared to smaller employers (22%). Only 6% of larger and smaller employers had seen apprentice numbers decrease.

The ESS asked employers whether they planned to offer apprenticeships in the future.

Table 4 shows that larger employers were more likely to offer apprenticeships in the future. Of those employers who currently have apprentices/offer apprenticeships, the large majority of larger and smaller organisations plan to continue to do so, but there is a 10 percentage point difference in favour of larger firms. Furthermore, for those organisations who currently do not have apprentices/offer apprenticeships, more than twice as many larger employers plan to do so in future.

Of those employers who currently have apprentices/offer apprenticeships, larger establishments are more likely to increase the number of apprentices whereas smaller employers plan to keep apprentice numbers at the same level. Given that larger employers recruit many more apprentices, this is likely to skew apprenticeship recruitment even more to larger employers.

For those employers planning to increase the number of apprentices, the main reasons are business growth (34% of <100 employers and 29% of 100+ employers), increased demand for apprenticeship positions (14% and 20%), and good experiences of apprentices in the past (13% and 23%). The fourth most mentioned reason for larger employers (16%) was because of the apprenticeship levy.

**Table 4: Future apprenticeship plans by size**

	<100	100+
<b>Plan to offer apprenticeships in the future:</b>		
<b>All employers (% yes)</b>	30%	77%
<b>All who have/offer apprenticeships (% yes)</b>	86%	96%
<b>All who do not have/offer apprenticeships (% yes)</b>	17%	39%
<b>All employers who have and will continue to offer apprenticeships in future:</b>		
<b>Increase</b>	27%	54%
<b>Stay the same</b>	67%	41%
<b>Decrease</b>	4%	3%

Source: Employer Skills Survey 2019: England data tables

### 3.9. Postscript: Gauging the impact of COVID-19 on apprenticeship starts

The main economic impact of the pandemic was to reduce the demand for output and thereby employment. It is estimated that the UK economy contracted by around 8% during 2020. As Figure 19 demonstrates, this is a much steeper decline than that experienced during the global financial crisis in 2008.

While the impact on employment has not been as pronounced because of the various business and employment protection measures introduced as the scale of the pandemic became apparent, it has affected young people's transitions into the labour market. The government sought to protect existing apprenticeships through a range of policies that, amongst other things, provided:

- financial incentives for employers to retain apprentices (between 1 April 2021 and 30 September 2021) employers will receive £3,000 for new apprentices in addition to the £1,000 which had already been announced;
- the opportunity for furloughed apprentices to continue training so long as it was not related to productive activities of the employer;
- temporary discretions and flexibilities to allow apprentices to complete their assessments and thereby financial hardships which might otherwise occur from a delay in the completion; and
- support to providers to find employers who would allow apprentices made redundant complete their training where around three quarters of the apprenticeship has been completed.

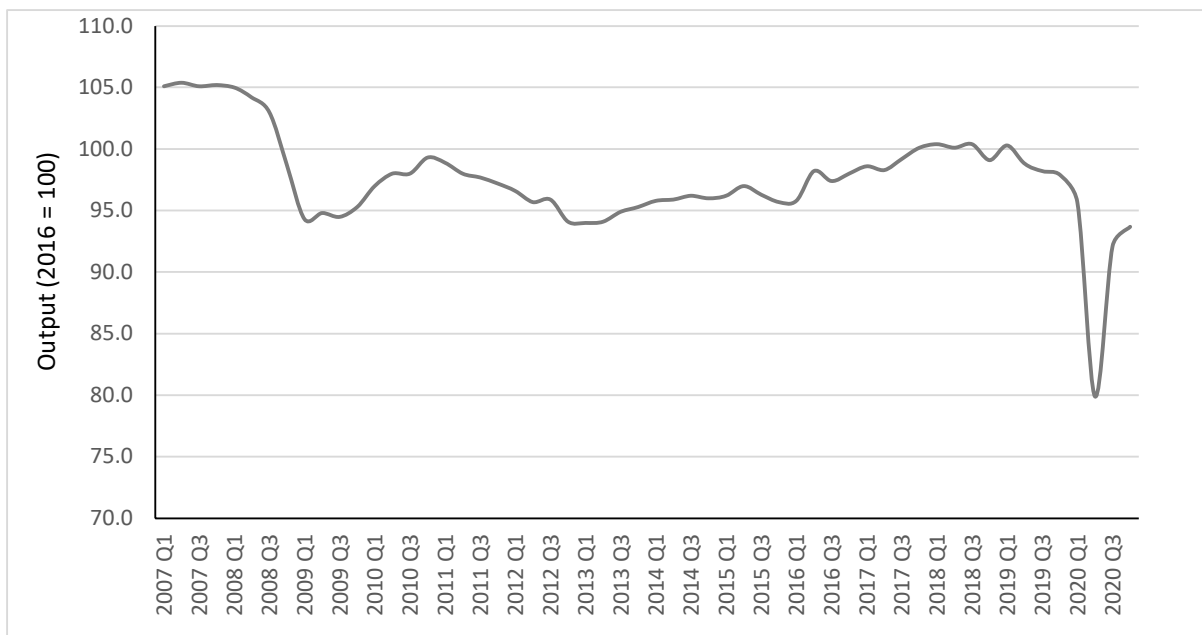
Even with these supports in place, the inescapable fact is that employer demand for labour and skills has been subdued during the apprenticeship. And even if employers tend to protect the employment of trainees and apprentices in any first round responses to weakening demand,<sup>29</sup> it was always clear the scale of the downturn was likely to affect the employment of apprentices simply as a consequence of employers going out of business (with apprentices

<sup>29</sup> Hart, R. A. (2005). 'General human capital and employment adjustment in the Great Depression: apprentices and journeymen in UK engineering'. Oxford Economic Papers, 57(1), 169–189;

being made redundant) or their projections of future skill demand being scaled down (such that fewer apprentices were taken on and some being made redundant). A survey undertaken by the Sutton Trust revealed that:

- a substantial number of apprenticeships had been disrupted with 39% of apprenticeships running as normal with the rest being disrupted in some way;
- not all apprentices were able to continue working or training from home because they did not have access to the IT equipment / internet or a space where they could work;
- on average, employers reported that 36% of their apprentices had been furloughed;
- 58% of employers were confident that all of their apprentices would return in due course, but 17% said that fewer than half would do so.<sup>30</sup>

**Figure 19: Trends in Output (2016 = 100)**



Source: ONS Total Production : Sections B, C, D and E (Index):CVM

In thinking about the overall impact of the pandemic on apprenticeship starts a crude insight is gained by comparing the number of apprenticeships starts at a point before and after the pandemic started. But it needs to be borne in mind that before the pandemic started the number of apprenticeship starts had been in decline so this needs to be factored into the calculations.

Table 5 below provides an initial set of estimates. Between 2018/19 Q2, and 2019/20 Q2 the overall number of apprentices fell by 7.3%. If it is assumed that the number of apprentices continued to fall by this amount between 2019/20 Q2 and 2020/21 Q2 then one is able to control for this trend. This then provides an estimate of fall in apprenticeship starts as a consequence of the pandemic. This suggests that the number of apprenticeship starts has declined by around 14% (2019/20 Q2 to 2020/21 Q2) as a result of the pandemic. This appears to have affected young people more than older ones.

<sup>30</sup> Doherty, K. and Cullinane, C. (2020) [COVID-19 and Social Mobility Impact Brief #3: Apprenticeships](#). Sutton Trust, May 2020

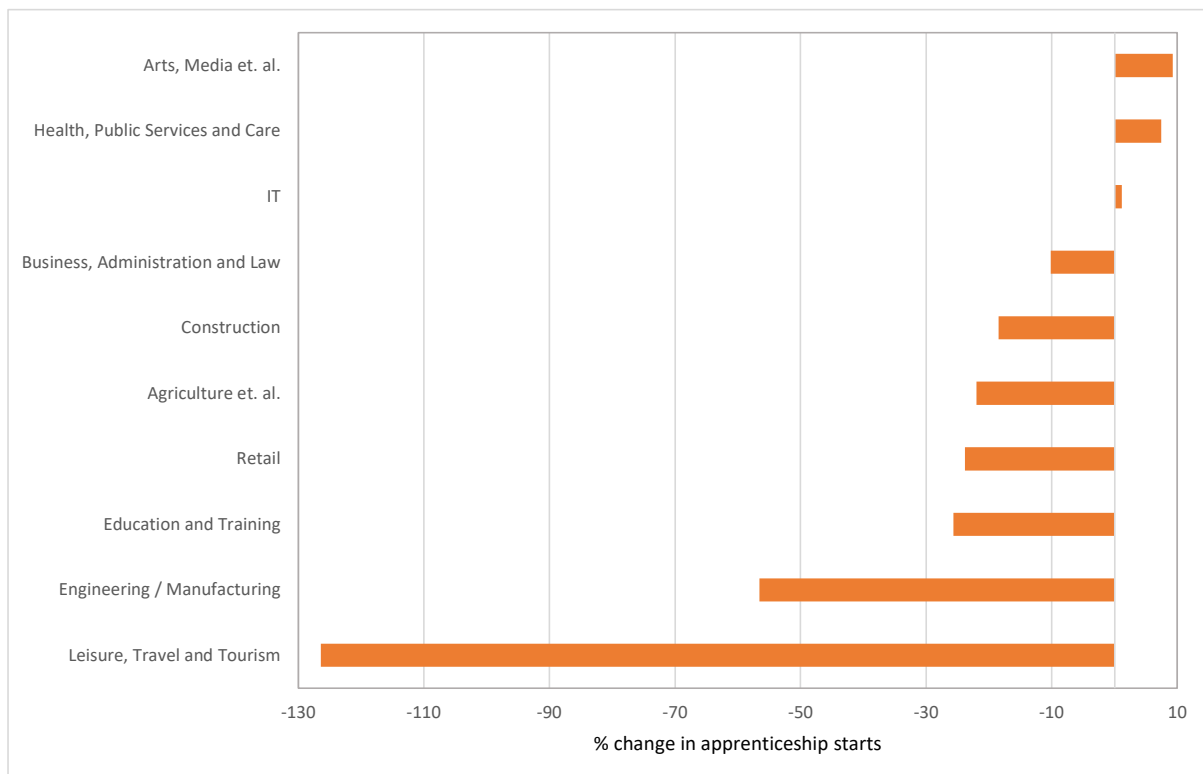
**Table 5: Percentage change in apprenticeship starts resulting from the pandemic: 2019/20 Q2 and 2020/21 Q2 compared**

Apprenticeship starts	% change in apprenticeship likely to be as a result of the pandemic
Under 19	-32
19-24	-15
25+	-5
19+	-8
Intermediate Apprenticeship	-26
Advanced Apprenticeship	-18
Higher Apprenticeship	-5
Total	-14

Source: DfE Apprenticeship Statistics; own calculations

A similar set of estimates can be produced for the broad subject area (see Figure 20). As can be seen there has been a major impact on apprenticeships in leisure, travel and tourism where the number of starts has been effectively halved. In contrast, there has been an increase in the number of starts in health and IT respectively.

**Figure 20: The change in apprenticeship starts resulting from the pandemic by subject area: 2019/20 Q2 and 2020/21 Q2 compared**



Source: DfE Apprenticeship Statistics; own calculations

From the foregoing it is evident that the number of apprenticeship starts has been substantially and adversely affected by the pandemic. If there is relatively rapid bounce back in the



economy during 2021 and 2022 then this may see some recovery in their number. But the problem remains that there will be a new cohort of would-be apprentices whose opportunities may be squeezed by the backlog of apprentices who are still in the process of completing their training. This may well work its way out of the system over the next year or so, but nonetheless it suggests that the pandemic will continue to affect apprenticeship starts at least over the short-term.

### **3.10. Main findings**

The findings from the EAS and ESS confirm the direction of travel reported in official apprenticeship data. Employment size is the most influential factor as to whether employers will recruit apprentices and the number they take on. And apprenticeships are increasingly becoming the preserve of larger organisations.

At the time of the introduction of the apprenticeship reforms, levy payers were more than twice as likely to expand the number of apprentices than non-levy payers. And post-reforms, levy payers (based on the proxy measure) were more likely to increase the number of apprentices as well as the breadth of apprenticeships within their organisation.

Levy payers are more likely to recruit existing staff on to apprenticeships, and to use apprenticeships to train those workers for new jobs suggesting progression routes within the organisation. Non-levy payers were more likely to recruit new and younger people into existing job roles.

The benefits of apprenticeships appear to be equally felt by levy- and non-levy payers. However, the costs are different. Non-levy payers are more sensitive to external business conditions and the cost of apprentices than levy payers. Non-levy payers also have lower apprentice retention rates (which may be due to them recruiting younger apprentices and having fewer internal progression routes). If employers are cost sensitive (given that the benefits are similar) then the costs of apprenticeships have risen for non-levy payers. Whilst larger organisations pay the levy, they are incentivised to spend it and it is the most important reason for expanding apprentice numbers. Within levy payers there is an important subset of employers, the public sector. Public sector employers are more likely than other levy payers to recruit apprentices, and they have additional government apprenticeship targets to meet. In addition, in a time of austerity, they now have a levy pot to fund apprenticeship training.

COVID-19 has reduced UK output by around 8% during 2020, much steeper than the global financial crisis in 2008. A number of business and employment protection measures were introduced and this has protected many businesses and jobs. Existing apprenticeships were also protected through a range of policies. However, a number of apprenticeships have been disrupted through pauses in training, furlough and redundancy.

Analysis suggests that apprenticeship starts fell by around 14% as a result of the pandemic. Young apprentices appear to be impacted more than older ones. Leisure, travel and tourism have also been hit hardest and health and IT the least.

If the economy does bounce back, there will be several cohorts of would-be apprentices competing for opportunities due to the backlog of apprentices delayed by the pandemic, and this is likely to affect apprenticeship starts over the next 12-18 months.

## 4. The impact of apprenticeship reforms: findings from the case studies

### 4.1. Introduction

This section provides an analysis of the qualitative interviews with 23 employers – levy- and non-levy payers – delivering high- and low cost apprenticeships. The section describes the role and rationale of apprenticeships within respondents' organisations, pre-reform planning, and post-reform impacts in the immediate aftermath and medium term. The section ends with an analysis of the impact of COVID-19 on employer's apprenticeship recruitment and plans.

### 4.2. Apprenticeships within the organisations

#### 4.2.1. Characteristics of apprenticeships

The 23 respondent organisations employed almost 3,000 apprentices (2,852). However, the range of apprenticeship provision varied significantly across the organisations from employers with one apprentice to those employing over 1,000 apprentices across a range of standards and levels. Some organisations provided both high and low cost apprenticeships (but when interviewed were asked about one type only). The amount levy paying organisations paid into their levy pot also ranged widely from thousands of pounds to over ten million pounds.

In most cases, respondents were able to provide data on apprenticeships across the organisation as a whole either because they were a small employer or because we spoke to someone in a central HR department. However in the three cases (all levy payers where apprenticeship recruitment was decentralised) respondents were only able to provide data on the apprentices in their particular department.

Table 7 shows the number of apprentices in the respondent's organisation by level, whether a levy payer, and low/high cost apprenticeship. Intermediate level were the most common type of apprenticeship 2019, followed by Advanced and Intermediate. As larger organisations, levy payers accounted for the largest number of both low- and high cost apprentices (89% overall), and apprentices on low cost standards accounted for just over half (54%).

A large proportion of low cost apprenticeships were at Intermediate level (82%) whereas high cost apprenticeships were mostly at Advanced (48%) or Higher (30%) level.

**Table 6: Number of apprentices by level, cost and type of organisation**

Number of apprentices	Intermediate	Advanced	Higher	Don't know	Total
<b>Low cost:</b>	1248	273	7	0	1528
Levy payer	1071	253	7	0	1331
Non-levy payer	177	20	0	0	197
<b>High cost:</b>	54	639	393	238	1324
Levy payer	34	604	392	183	1213
Non-levy payer	20	35	1	55	111
<b>Total</b>	<b>1302</b>	<b>912</b>	<b>400</b>	<b>238</b>	<b>2852</b>

Note: Based on 23 respondent organisations. Organisations can have more than one level/cost of apprenticeship.

Source: IER apprenticeships with hindsight employer interviews

Table 8 shows the number of apprentices by broad standard and level, grouped into high and low cost apprenticeships. Most low cost apprenticeships were in customer service (just under two thirds of low cost apprenticeships) and hairdressing (around one quarter), mostly at Intermediate level. The largest number of high cost apprenticeships were in engineering ((just under two thirds of high cost apprenticeships) construction (one in six) and management (one in six), mostly at Advanced and Higher levels.

**Table 7: Number of apprentices by level, cost and broad standard**

Number of apprentices	Intermediate	Advanced	Higher	Don't know	Total
<b>Low cost:</b>	1248	273	7	0	1528
Children & YP Workforce	0	10	7	0	17
Customer service	698	226	0	0	924
Hairdressing	327	37	0	0	364
Health and social care	3	0	0	0	3
Transport	220	0	0	0	220
<b>High cost:</b>	54	639	393	56	1142
Accounting	0	5	8	0	13
Business Administration	4	45	24	0	73
Construction	20	27	76	56	179
Digital	0	3	11	0	14
Engineering	30	528	134	0	692
Management	0	31	137	0	168
Professional services	0	0	3	0	3
<b>Other</b>	0	0	0	182	182
<b>Total</b>	<b>1302</b>	<b>912</b>	<b>400</b>	<b>238</b>	<b>2852</b>

Note: Based on 23 respondent organisations. Organisations can have more than one level/cost of apprenticeship.

Source: IER apprenticeships with hindsight employer interviews

Table 9 shows that most apprentices were aged 25+ (1,083 or four in ten) with one in six aged 16-18. Levy payers are much more likely to employ 25+ apprentices than non-levy payers, especially on low cost apprenticeships.

Where respondents were able to provide the breakdown by age and level, those aged 19-24 and 25+ were more likely to be undertaking Intermediate apprenticeships (around two thirds in both age groups). Those aged 16-18 were also more likely to be undertaking Intermediate apprenticeships (just over half) but a significant proportion were also undertaking Advanced apprenticeships (almost half). Just over one fifth of 19-24 year olds were on Higher level apprenticeships as were one in six of those aged 25+.

**Table 8: Number of apprentices by age, cost and type of organisation**

Number of apprentices	16-18	19-24	25+	Don't know	Total
<b>Low cost:</b>	279	358	890	1	1528
Levy payer	103	338	890	0	1331
Non-levy payer	176	20	0	1	197
<b>High cost:</b>	130	697	193	304	1324
Levy payer	105	667	193	248	1213
Non-levy payer	25	30	0	56	111
<b>Total</b>	<b>409</b>	<b>1055</b>	<b>1083</b>	<b>305</b>	<b>2852</b>

Note: Based on 23 respondent organisations. Organisations can have more than one level/cost of apprenticeship.

Source: IER apprenticeships with hindsight employer interviews

Eighteen of the 23 respondents were able to provide data from 2016, enabling us to plot changes over time. However, of the 18 respondents, five could not provide 2016 data on all of the standards they were currently delivering. Comparing the data on those standards available in both years, there were 2,144 apprentices in 2019 compared with 1,305 in 2016, an increase of two thirds.

In keeping with the analysis in Section 3.7, data provided by respondents suggests that, amongst levy payers, there was a significant increase in the number of apprentices on both low cost and high cost apprenticeships. In contrast, non-levy payers reduced their apprenticeship numbers on high cost apprenticeships whilst keeping the numbers on low cost apprenticeships at the same levels.

Where the data allows a comparison, the analysis also confirms the conclusions in Section 2.4.4, that increases in apprenticeships amongst levy payers tends to be across the board in most standards and levels. However, the reverse is true for non-levy payers who have tended to reduce (or at most maintain) apprenticeship numbers in all areas. There is not sufficient data to undertake analysis by age of apprentice.

For levy payers, the increase in apprentice numbers has come from increasing the numbers on existing standards rather than by implementing new ones. For new standards there was an increase from nought to 170 in new standards, but an increase of 675 to over 1,700 on existing standards.

It was originally intended to compare the responses of organisations to those given in the 2017 AELP survey. However, only five organisations in the original sample responded to the current survey.

#### **4.2.2. Rationale for apprenticeships**

Respondents were asked about their organisation's historical involvement with apprenticeships and their rationale for investing in apprentices. Of the 23 organisations, three started taking on apprentices after the 2017 reforms were implemented (two levy and one non-levy payer). The latter had delivered in-house provision prior to 2018 but then moved to apprenticeships. All other organisations had been delivering apprenticeships for a number of years.

The main reasons why organisations took on apprentices (ranked by how often they were mentioned) were:

- **Training new recruits.** In these cases organisations needed to take on new recruits and apprenticeships were the most effective way of training them. In many instances, these were large organisations who regularly needed to recruit large numbers of young people to replace people who were leaving the organisation (e.g. due to retirement) as the part of the natural ‘churn’ (also known as replacement demand). In most cases these tended to be people in high cost apprenticeships but this was not always the case. Organisations with low cost apprentices also gave this as a reason, for example, because it increased retention rates at the end of the apprenticeship and enabled them to retain staff for longer once qualified.
- **Effectiveness based on experience.** This was the second most mentioned reason. Some respondents said their organisation had been taking on apprentices for a long period of time and it had served their purposes well. The original reasons were lost in time, but in most cases apprenticeships were currently the ‘industry standard’ (e.g. hairdressing) and/or the apprenticeship model – with on-the-job experience and off-the-job training – was an effective way of developing people. In these cases apprenticeships are the ‘default’ training programme and this decision is not reviewed (see also Dickinson et al November 2020).
- **Growing your own.** This was the most common reason given by non-levy payers. In most cases organisations wanted to grow their own because they had a particular product and/or approach to customer service that they wanted to instil in their workforce. If they recruited experienced staff they would need to reassemble some of their skillset to these new ways of working, so it was easier starting from scratch. The other reason why organisations wanted to grow their own was where employers had medium/longer term workforce planning and could plan their future skill needs in certain occupations, so they recruited apprentices with a view to replacing staff in several years time (see Box 2).
- **Corporate social responsibility (CSR).** CSR reasons involved giving opportunities to young people or older disadvantaged people in their local areas. The organisations giving CSR as a reason were disparate. In most cases, the organisations rationale for taking on apprentices was part of a wider CSR commitment, for example, in the case of third sector organisations (TSOs). However, commercial, profit making organisations also gave this as a key reason for employing apprentices, whilst the primary prerogative may have been to recruit staff they could also use this as an opportunity to support people in their area. Some employers also want to be seen as ‘good’ employers and apprenticeships met business requirements to recruit, retain, develop and progress their workforce (see also Dickinson, November 2020).
- **To spend the levy.** This was rarely the primary reason given by respondents, and was mostly mentioned as a reason for expanding apprenticeships. In some cases the levy was a pot of money which the employers did not want to waste and so they looked at ways of maximising their levy spend. In others, the introduction of the levy had prompted them to rethink their workforce development strategies and apprenticeship recruitment fell out of this strategic skills needs analysis.

- **Train existing staff.** Apprentices were used to train and/or progress the existing workforce. This was usually a secondary reason. For some organisations this existed before the levy, for others it was developed in response to the levy.
- **Addressing recruitment difficulties.** Some organisations found it difficult to recruit certain types of staff and had little option but to recruit and train younger people. This was mentioned by both low and high cost apprenticeship employers. For example, construction employers found it difficult to recruit to certain trades whilst a childcare provider said they would prefer to recruit experienced staff but there were non available (see Box 1).
- **Cost effectiveness.** A small number of employers said that it was more cost effective to take on younger people and train them rather than recruit experienced staff. For example, some employers (e.g. hairdressers) can use apprentices for administrative and customer service duties rather than appoint a receptionist or a stylist's assistant.

In all cases, organisations' rationale for apprenticeships were various combinations of these reasons.

### 4.3. Initial responses to the introduction of the apprenticeship levy and other reforms

In Spring 2017 the apprenticeship levy was introduced, along with a number of other reforms. Respondents were first asked about their initial responses to the news of the introduction of the levy.

#### 4.3.1. Initial response of non-levy payers

For non-levy payers delivering high cost apprenticeships the main response was 'What levy?' In the case of these organisations the introduction of the levy had little or no impact on apprenticeship plans. The main impact for them would be having to pay 10% (later reduced to 5%) of the training costs. As they tended to be longstanding apprenticeship providers these relatively small additional amounts did not impact on their decision:

*"So much goes on in industry and I operate on a need to know basis and I didn't need to know this. I couldn't tell you what the levy is or how much the funding is worth. We take on apprentices anyway and I'm not bothered whether we get subsidised for it".* (Non-levy paying, high cost employer NLP\_HC1)<sup>31</sup>

Non-levy payer organisations with low cost apprentices were much more aware of the introduction of the levy. In some cases this was because they trained other employers' apprentices and so needed to be aware of the changes as it could affect the number of trainees they got from other businesses. In another case, the company was alerted to the changes through their training provider. Although non-levy payers, these employers were concerned about the introduction of the levy because it would lead to them paying 10% of their training costs which was an additional cost to them as previously they got it for free:

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<sup>31</sup> For the purposes of the report, employers have been assigned a unique ID. The letter part of it refers to whether they are a levy (LP) or non-levy payer (NLP) and whether the apprenticeships is high (HC) or low cost (LC).

*“It was pretty grim. A 10% fee was mooted before but it was not enforced so we didn’t use to pay anything”.* (Non-levy paying, low cost employer NLP\_LC3)

*“It was another added cost so we had to think hard about it [i.e. whether to recruit apprentices]”.* (Non-levy paying, low cost employer NLP\_LC1)

One low cost, non-levy payer organisations provided training for others as well as themselves. They were on the borderline of paying the levy and were less concerned about its introduction because they valued apprenticeships, but they were concerned about the impact of the 10% additional training costs to their business customers:

*“We are big enough to pay the 5% or 10%. We weren’t too concerned about the levy because we are investing in apprenticeships anyway, so it wasn’t a problem. We thought it was quite a positive thing overall. It does make a difference though to a smallish company”.* (Non-levy paying, low cost employer NLP\_LC4)

### **Box 1: ‘Traditional’ high cost apprentice small employer unaffected by the reforms**

#### **Non-levy payer with high cost apprenticeship – Engineering Level 2**

##### *Rationale for apprenticeships*

This company regularly recruits a small number of apprentices. They are a niche manufacturer making custom products. Because of its business model the company finds it difficult to recruit people with the requisite skills, but it also wants to invest in young people. It uses apprenticeships to meet its workforce skill needs: *“We want to home grow staff so apprenticeships have been the way to go and we’ve used it for decades. Because of the custom work we do, we cannot recruit so we have chosen to train people. But we also want to recruit young people from the local area as well.”*

##### *Planning for the introduction of the levy?*

The owner did not know what the levy was, nor whether he paid it. The business required apprentices for the reasons above and that has not changed, so apprentice recruitment has not changed: *“I wasn’t aware of the implications, it was business as usual.”*

##### *What happened after the introduction of the levy?*

Post-levy, the company’s recruitment of apprentices remained the same: *“We have a roll-on:roll-off approach so when an apprentice has completed we start another one.”*

##### *What were the eventual outcomes?*

The business takes on the same number of apprentices. They do not recruit Higher level apprenticeships but do not rule this out. They are involved in collaborations with universities and hosts KTP students. This is part of their innovation strategy.

#### 4.3.2. Initial response of levy payers

A number of levy payers were involved with the apprenticeship standards Trailblazer groups<sup>32</sup> and so had already been heavily involved in aspects of the apprenticeship reforms, and so were well aware of the reforms being introduced in Spring 2017. Most of these organisations ran high cost apprenticeships but some delivered low cost ones as well.

Most levy payers, both high and low cost, were very positive about the reforms. In most cases this was because the levy provided organisations with a dedicated funding pot that they could use for apprenticeships:

*“It was music in my ears as we were already investing in apprenticeships. It was a way to leverage that funding to create more opportunities [for apprenticeships]”. (Levy paying, high cost employer LP\_HC9)*

*“The levy provides us with a pot that we can use to fund apprentices. As a care organisation we are always wanting to get people into work who haven’t worked before or got the experience so we’re always looking to apprenticeships to get new people in and anything that helps us to do that we look on as a positive”. (Levy paying, low cost employer LP\_LC3)*

Some of the larger organisations – both high and low cost – put in a considerable amount of dedicated resources to plan for the introduction of the levy. This was because they would be paying large amounts into the levy and wanted to use it effectively. Some of the larger employers in the study are complex organisations covering a number of different business units and/or supply chains. The levy provided the company with resources but they needed to plan out how this could be used to benefit of the business which involved high level business planning:

*“Me and my team went off site for half a day and did a SWOT analysis: what are the challenges we face as a business?; What have we got?; What have we not got?; and, Could we use the levy in a way that we could fix some of those issues? Out of this came the decision to have a voice in the Trailblazer group. We also wanted to break down the language into a simple one to get the message across in a simple guide to our supply partners (some pay the levy, some don’t)”. (Levy paying, high cost employer LP\_HC9)*

Another large organisation, began planning the implementation of the levy in 2016 and hired an external person to manage this process:

*“We became aware of the levy and I was brought in to manage its implementation. We did look at it from an individual business unit perspective but felt there was no point in doing that because apprenticeships take up a*

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<sup>32</sup> Trailblazer groups are responsible for developing apprenticeship standards. They are groups of employers recognised by the IfATE and reflective of those who employ people in the occupation, including small employers. Whilst there has not been any analyses of the composition of the Trailblazer groups, a number of commentators believe they over represent large employers and under represent small ones. For example, see: Dickinson, P. et. al. (2017); Dickinson, P. (November 2020); Benassi, et. al. (2020); and FISSS (2014).



*higher proportion of staff in some areas than others, so we have treated it as an organisation wide pot. (Levy paying, low cost employer LP\_LC4)*

In other levy paying organisations, there was a central function which manages the levy but the decision to take on apprentices is made in individual business units. In these organisations, people recruiting apprenticeships were shielded from the implementation of the levy.

For most levy payer organisations, the move to the levy was relatively straightforward, even if they did not put significant resources into planning for it. This was because it was very much business as usual, they already recruited apprentices and this continued:

*“We were working on some of the trailblazer standards so knew what it meant for us. Not such a massive shift because we were already training people up. So, we were not apprehensive about the reforms. We are an employer provider so the initial hardest work was in developing standards, moving to the EPA. Things like that is where the major changes were for us, not the levy”.*  
(Levy paying, high cost employer LP\_HC2)

For a small number of levy payers, the introduction of the levy did cause them problems. In one organisation (high cost) the implementation of the levy was managed centrally but information took time to flow out to the departments that hired apprentices. In another organisation, the respondent said that the levy caused:

*“Pure confusion. It was not very clear how it works and how to fill out forms on time. It was confusing. I worked closely with the person who [we put] in charge of the levy. We invested in courses but that did not help too much either. It was fear of the unknown and change. But we had to make it work because we rely so heavily on apprentices”.* (Levy paying, low cost employer LP\_LC5)

**Box 2: Planned expansion of apprenticeships based on workforce cost: benefit analysis**

**Levy payer with high cost apprenticeship – Engineering Level 2**

*Rationale for apprenticeships*

This organisation has been recruiting apprentices for a long period. Originally they were used to upskill existing staff but around 2010 they were used to bring young people into the business. The company created its own apprenticeship academy working with a local college, which also provides apprenticeship training for SMEs in its supply chain. Primarily, apprenticeships are part of its long-term workforce strategy to address its ageing workforce and ensure its workers have the necessary skills.

*Planning for the introduction of the levy?*

There was detailed preparation for the introduction of the reforms, and the levy in particular. The organisation knew that they would have a large levy pot. There was dedicated planning for the introduction of the reforms, and the organisation was heavily involved in the Trailblazers to ensure that the standards were appropriate to their business.

The internal review evaluated their participation in apprenticeships, and the findings were presented at board level. For example, the review assessed whether apprenticeships were cost effective compared to recruiting experienced people directly:

*“We studied the cost of going directly to the market and bringing in a skilled technician versus how long the skilled technician tends to stay versus the upfront cost of investing in*

*an apprentice for 3 -4 years and the medium to long term benefit we get in terms of output and retention.*“

*What happened after the introduction of the levy?*

The decision was to expand apprenticeships. The main advantage of apprenticeships was not just in meeting short- medium term skills requirements but the longer term management and leadership within the company, as well as maximising their levy spend:

*“We decided on more training through the apprenticeship route partly to increase our levy spend. We did workforce planning e.g. overlaying the headcount forecast with apprenticeship recruitment. In 7 years over one third of our technical team would have retired. Apprentices are one part of the solution but there is also leadership development. We focused apprenticeship training on the technical side but also on leadership development.”*

*What were the eventual outcomes?*

Apprenticeships were expanded in terms of numbers, standards and levels. This included apprenticeships for non-technical staff: “...mending the toilets and mowing the grass.”

Apprenticeships are the main way for hiring and developing staff. The organisation is involved in degree apprenticeships but sees this as running alongside its graduate programmes rather than replacing them:

*“The main route into the business is now through the apprentice or the university graduate route. The level of external direct hiring is quite low unless it is for a very unique skills set that we don't think we can train up.”*

However, the respondent did say that the expansion of apprenticeships per se was driven by workforce planning but the move into Higher level apprenticeships was levy related:

*“The main driver has been the need to create stability in the workforce of the future and then use the levy proactively to deliver the skills the organisation needs. But the Higher level apprentices were due to the need to make best use of the levy.”*

In addition to the expansion of their apprenticeship programmes, apprentice recruitment is now more diverse e.g. employing greater numbers of female technical staff. The organisations got more involved in working with local schools in order to get the required numbers.

The development of the apprenticeship programmes within the business has gone relatively smoothly. The main challenges, and frustrations, have been in the external elements and processes of apprenticeships, in designing the standards, the EPA and getting appropriate funding bands:

*“Some of the structures, policies and ways of working were probably not so well embedded from an employers perspective. Our job is making XXXX not designing qualifications. We found we were spending a lot of time on the latter.”*

### **4.3.3. Decision making in the immediate aftermath of the levy**

*Apprenticeship planning in the immediate aftermath of the levy*

In most cases the decision making process was not changed in the run up to, and immediate aftermath, of the introduction of the levy. Two levy payers (one high- the other low cost apprenticeship employers) drafted in new people to manage the transition and early implementation of the levy. The high cost apprenticeship organisation undertook a sophisticated financial cost benefit analysis of apprenticeships:

*“...wider stakeholders' within the company needed to be more aware of the changes in our training. The finance people also had an interest whether it is more cost effective to train apprentices or to hire direct from the market. So they looked at the salaries and training lead comparison and also the likelihood of them staying in the business. We took a long-term view, in terms of talent, capability and efficiency – but not just financially. Some of the 17 year old apprentices hired are now on the first level management development course and in 5 to 10 years they will be middle-management”.* (Levy paying, high cost employer LP\_HC5)

But this level of sophisticated analysis and planning was untypical. At the other extreme was another high cost levy paying employer whose organisation had a central HR department but apprenticeship recruitment was the responsibility of individual departments. No central analysis of the implications took place, and no planning for the introduction of the levy took place resulting in no change to their recruitment.

The immediate post-levy plans for most non-levy payers was business as usual, this applied to both high- and low cost apprenticeship employers. Only two non-levy payers had planned responses, which they then carried out. For one (low cost) respondent this resulted in them stopping recruiting apprentices so they could consider the cost implications of the changes. The other was a high cost apprenticeship employer. This organisation trained apprentices for other companies (in the construction sector) as well as their own. Their main response post-levy was to explore the ability of large levy paying organisations to transfer some of their levy pot to non-levy payers so the number of apprentices they trained from other companies were maintained.<sup>33</sup>

For levy payers (both high- and low cost apprenticeship employers) most increased their numbers, but how they carried out their plans varied. Two large levy payers (one high- and one low cost) increased the number of apprentices to meet the skills and recruitment needs of the business. One of these (see Box 2) undertook detailed planning and this informed subsequent business recruitment decisions. The second organisation was a large organisation with several business units with different levels of workforce skills requirements. In the run up to the implementation of the levy they expanded the number of central staff working on apprenticeships because they knew their levy pot would be large and they wanted to maximise this as an investment in skills. A central apprenticeship management function was created which developed the organisation's strategic approach to apprenticeships, and as a central resource of apprenticeship expertise and intelligence for the business units. As recruitment was devolved to these individual business units, rather than directly impacting on recruitment decisions their role was as:

*“...an internal consultant talking to people in the business units about expanding apprentices, a dedicated role in the team to take apprenticeships forward. We are a centre of expertise, non-operational. We lead on the strategy and shape of the programme but delivery is devolved to the business functions.”* (Levy paying, low cost employer LP\_LC4)

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<sup>33</sup> Initially employers could transfer 10% of their levy funds to other employers within an 18 month period, both levy and non-levy payers. In 2018 this was increased to 25% of levy funds and the deadline was extended to 24 months.

Post-levy this led to apprenticeship recruitment varying between different business units but with underpinning strategic support.

The response of most other levy payers was a 'spend it or lose it' approach, for example, converting internal programmes into apprenticeships or prioritising apprenticeships when making recruitment decisions. The existence and size of the levy pot was given more weight relative to the needs of the business to a greater extent than in the previous two examples where a more planned, strategic approach prevailed:

*"It was a case of just get as many as we can. The levy was just a bit of a hump in the road for us. We've always been involved in apprenticeships. The levy was just a bit of a challenge and, if anything, it gave us more drive to get apprenticeships".* (Levy paying, low cost employer LP\_LC5)

This is not to say that business needs were not involved in apprenticeship planning:

*"The big change that came with the levy was that we were able to invest more in apprenticeships and we were trying to influence the business to look at apprenticeships as a key part of our early talent strategy. Partially this is due to the levy (maximising the funds) but more than anything we recognised that apprenticeships are good for business".* (Levy paying, high cost employer LP\_HC9)

Two levy payers with high cost apprentices said they would have like to have recruited more apprentices due to the levy but couldn't. In one case this was because it was a TSO and used apprenticeships to provide opportunities for young people, but there was not enough demand in the business to take on young people as new recruits.

The planned response from all levy paying organisations with high cost apprenticeships was to expand their apprenticeship programmes, but some were unable to carry out these plans for practical reasons. For example, one high cost apprenticeship employer used apprenticeships to recruit and develop disadvantaged young people, but expanding their number was impractical because there was not sufficient demand in the business. So they expanded to training existing staff instead.

Whilst most levy payers with low cost apprenticeships planned to increase the number, two said it was business as usual. One of these organisations, a care provider, recruited apprentices to fill staffing gaps in the business and which limited their apprenticeship recruitment to whichever vacancies existed at the time.

#### *Apprenticeship planning in the immediate aftermath of the levy – the impact of other reforms*

The levy was just one element in the reform package introduced in Spring 2017. Respondents were asked whether they were aware of the other changes, such as the 20% off the job training requirement and the introduction of the EPA.

All of the levy payers were aware of these other changes being introduced. As far as non-levy payers were concerned, the only organisations who were aware of the other reforms were those who provided training for other businesses.

For levy payers, their reaction to the other reforms was mixed:

- **Standards.** Although pre-dating the Spring 2017 reforms, the switch from apprenticeship Frameworks to Standards had accelerated since 2016. For most levy

payers, the switch to standards was welcomed and, in some cases, the organisations had been involved in the Trailblazers developing the standards, primarily to ensure that they were appropriate to their organisation. For example:

*“When we knew the levy was coming we got involved in the Trailblazer group. We helped write the qualification. We were proactive in terms of what we needed as a business as well as what the sector might need.”* (Levy paying, high cost employer LP\_HC5)

One area that was particularly favourable was the introduction of degree apprenticeships which met some of the higher level skills needs, especially in high cost apprenticeship employers. More generally respondents said that standards were more relevant to their business than frameworks. The main area of dissatisfaction was the time it took standards to be developed. In some cases, this meant that their post-levy plans for starting new apprenticeships had to be delayed because the particular standard was not yet available:

*“We like the standards, they are more relevant, fit for purpose and more employer focused. But the standards setting process is painful. It is slow, bureaucratic, clunky and takes forever.”* (Levy paying, low cost employer LP\_LC4)

- **20% off-the-job training.** Off-the-job training has always been a key element of apprenticeships but the Spring 2017 reforms stipulated and enforced the 20% requirement across all standards and frameworks. Where more traditional (low and high cost) apprenticeships were delivered (such as construction, engineering and hairdressing) there had always been 20% off-the-job training element on a day or block release basis so the more stringent enforcement was nothing new in these areas. However, some employers (in both newer and traditional apprenticeships) were confused as to what constituted ‘off-the-job’ training.<sup>34</sup> The 20% off-the-job training was also a problem in those sectors and occupations where staff ratios were a statutory (e.g. in childcare) or a practical (e.g. in hospitality) requirement. If staff were not available to work because they were training their presence needed to be backfilled by other staff, adding to the costs of apprenticeships. In some occupations and sectors, such as accountancy or funeral care, there are similar qualifications which employers can choose that do not require off-the-job training and so may be more attractive to employers (Dickinson, March 2020; and Dickinson, November 2020).
- **End Point Assessment.** EPA was welcomed by some employers but not others. EPA was more of an issue in low cost apprenticeships because it involved a lot of work but was also a daunting prospect for some, especially low cost, apprentices: *“...the work that went into the EPA was phenomenal”*. (Levy paying, low cost employer LP\_LC2)
- **Other reforms.** The other reforms were either passed uneventfully (e.g. the introduction of the RoATP) or were required some getting used to, such as, the introduction of digital accounts but did not pose significant problems.

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<sup>34</sup> Off-the-job training includes formal training as well as practical training (e.g. shadowing, mentoring and industry visits), learning support and time spent writing assessments and assignments.

For non-levy payers, the other reforms did not have a significant effect for most respondents. The stipulation of 20% off-the-job training was already present in many traditional apprenticeships. As with levy payers, it did impact where it required backfilling<sup>35</sup> and added costs (most notably in childcare). Other research suggests that in order to avoid these costs employers simply ignore the 20% requirement, and this is more prevalent in sectors with low cost apprenticeships (Dickinson et. al. November 2020, and Dickinson November 2020). Within more traditional apprenticeship sectors the 20% off-the-job training requirement has always taken place and so is costed into the cost-benefit calculation. In low cost sectors where previously training was not undertaken through day or block release it is viewed much more as a cost pressure.

The EPA was the biggest concern amongst non-levy payers, mentioned by both high and low cost apprenticeship employers: *“The EPA makes apprentices panic because it’s a test and they’re not academic”*. (Non-levy paying, low cost employer NLP\_LC1). Some preferred a return to the ‘log books’.

#### *Apprenticeship outcomes in the immediate aftermath of the levy*

Respondents were asked whether their apprenticeship recruitment changed in anyway in the immediate post-levy period. For a minority of levy payers, both high and low cost, apprenticeship recruitment did not change. For some, their apprenticeship recruitment depended very much on business demand and changes in the workforce (e.g. people leaving). As these remained the same it was very much business as usual:

*“We are reactive. If someone leaves and we need to replace then we will look to apprenticeships along with recruiting experienced staff, we like a mix of the two. If someone wants or needs training or we identify a training need then we will consider it. The only change, because we now have the levy pot, is if a training need does arise then we will consider an apprenticeship.”* (Levy paying, low cost employer LP\_LC3)

For two other levy payers (both high cost) there were no immediate changes because the implications of the levy took time to filter through from their centralised HR departments.

But for most levy payers (both high and low cost) there were immediate increases in either the number, level or standards of apprenticeships or combinations of the three. In most cases this was as a direct effect of the levy. In some instances this was as a result of the proactive strategic planning undertaken in the run up to the introduction of the levy:

*“We made the decision to recruit annually with the number of apps decided by a workforce model, taking into account workforce demographics and turnover, changes in production, volume etc. We used the levy as a combination of fresh talent and upskilling the workforce.”* (Levy paying, high cost employer LP\_HC5)

For a number of levy payers which had strategically assessed, costed and planned the impact of the levy there were increases in the number of apprentices relating to their core business

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<sup>35</sup> Backfilling is where employers need to pay existing staff or recruit additional staff to cover for apprentices when they are undertaking their training. This occurs most in those sectors where there are statutory requirements on staffing levels (e.g. in the care sector) or staff need to be present in order to meet with customer demand (e.g. in hospitality or retail).

functions (i.e. areas to which they already recruited large number of apprentices) but also in non-core occupations (e.g. finance). As far as the former were concerned the increase was due to a combination of an expanding business and switching recruitment from experienced people to apprentices. As far as non-core apprenticeships were concerned, it was more to do with the realisation that post-levy employers had a pot of money that could be used to deliver apprenticeships either to recruit new or upskill existing staff:

*“We’d made great progress [before the levy] demonstrating the value of apprenticeships to the business but the levy gave us the real push we needed to influence the business a bit further. The levy was not the driver of change but it increased the number of opportunities.”* (Levy paying, high cost employer LP\_HC9)

This suggests that those levy payers who did undertake strategic analysis, costing and planning, concluded that there were positive returns to apprenticeships (e.g. when compared to recruiting experienced staff) as well as now having a ring fenced budget.

In another example, using the digital account made the employer realise which other occupations apprenticeships were available, and that the levy could be used to fund:

*“We had considered branching out into different types of apprenticeships. We could see from the digital account what different type of apprenticeships there were and how they might fit in with what we do. Also, more departments and teams were open to apprenticeships because it is funded through the levy whereas before the department would have paid for this. The digital marketing apprenticeship was the first new one in December 2017.”* (Levy paying, high cost employer LP\_HC7)

Those large levy paying organisations without such a central co-ordinating did not have the same apprenticeship intelligence, information and promotion to plan their apprenticeship recruitment and so their responses were business as usual, even if they had the same recruitment and skills needs as other organisations. Their apprenticeship recruitment carried on much as before i.e. similar numbers in the same core occupations as before.

Despite the relative cost-benefits of apprenticeships and expanding personnel needs (due to expanding business demand) all levy payers said they have an unspent levy pot i.e. their skill and recruitment needs are below what they pay into the levy. Whilst employers want to maximise their levy spend, this remains the case to this day, although some have done or are exploring giving some of their levy pot to their subcontractors.

Only one levy payer reduced their apprenticeship provision in the immediate aftermath of the levy, they dropped their Level 3 provision. But this was as a result of changes to the standard. The new Level 2 standard *“was more like a Level 2.5”* so apprentices did not need it as they could get a job with the Intermediate apprenticeship.

For most non-levy payers (high and low cost) their apprenticeship recruitment carried on as before. Three non-levy payers (one high and two low cost) reduced the number of apprentices they took on. In the case of one high and one low cost apprenticeship employer (the former trained apprentices for other companies as well) the various reforms all came at the same time causing employers to pause their recruitment until they understood the new regime:

*“Everything changed; the levy, funding, the way standards were delivered, the EPA. Since everyone had to get their head around it people just slowed down recruitment.”* (Non-levy paying, high cost employer NLP\_HC5)

For the low cost non-levy payer, the additional cost of the apprenticeship (although only a few hundred pounds) tipped the balance against apprenticeships:

*“We stopped recruiting apprentices because it cost too much. It was the straw that broke the camels back, it tipped it over the edge. Now it’s a last resort, if we cannot find a qualified person we then go for an apprentice.”* (Non-levy paying, high cost employer NLP\_LC1)

Two non-levy payers expanded their apprenticeship recruitment. One employer had decided to move to apprenticeships because they had found it difficult to recruit experienced staff. Whilst this employer was a non-levy payer they were on the cusp of paying the levy and whilst the introduction of the levy did not sway their decision, it did focus the company’s attention on training as a way of addressing their recruitment problems. The second employer (who also trained apprentices for other employers) also saw apprentice numbers increase because the new standard was an improvement on the framework.

#### **4.4. Apprenticeship recruitment prior to COVID-19**

Respondents were asked about their apprenticeship recruitment after the reforms had bedded in, and prior to the outbreak of COVID-19 i.e. in the period July 2019 to January 2020. As identified previously there is a significant difference in the behaviour of levy and non-levy payers.

##### **4.4.1. Apprenticeship recruitment prior to COVID-19: levy payers**

Within levy payers there was a difference between employers with high- and low cost apprenticeships. For employers with high cost apprenticeships, in the main, there was a greater determination to expand the number, level and standards of apprenticeships compared to those with low cost apprenticeships.

###### *High cost apprenticeship levy paying employers*

For high cost apprenticeship employers there were two dynamics at play. Those employers who had strategically planned around the introduction of the levy, and those who were expanding their training and who now had a ring fenced apprenticeship budget to deliver their aspirations.

One large employer had run apprenticeships in its core occupation because it enabled them to recruit young people to meet replacement demand, but it also improved staff retention and progression rates. They wanted to use their levy pot to extend apprenticeships so these recruitment, retention and progression benefits could be felt in other occupations:

*“Because we were heavily involved in training and apprentices, we already had an internal team for developing new programmes so they looked at developing where we needed to. We converted our internal programmes to apprenticeships (these were at Level 4) and worked with whichever Trailblazer to develop standards to make sure they were appropriate to us and then moved over to them. We are now looking at different opportunities e.g. for*



*experienced staff to move them on to a Degree Apprenticeship, but we haven't done that at the moment.” (Levy paying, high cost employer LP\_HC2)*

Another high cost apprenticeship employer had a central team developing company training across the business, in which a core value was developing talent and diversity within the business. Offering apprenticeships to young people, and their analysis of the impact of apprenticeships on retention and progression, were the main drivers of their apprenticeship programme pre-levy and continue to the present. However, because of the demonstrable advantages of apprenticeships they are keen to develop their apprenticeship offer further, and having funding from the levy pot to do this is an added advantage:

*“Now when we get a request for a vacancy we talk to the hiring manager as to whether or not it is a hiring opportunity for an apprenticeship or maybe there is then an opportunity for some development within the team. If we get requests for upskilling of existing employees we look whether there is an apprenticeship opportunity that might underpin this.” (Levy paying, high cost employer LP\_HC9)*

For three high cost apprenticeship employers the expansion of apprentices has been a more gradual process. For one organisation there is a realisation that their workforce is relatively old. They would like to 'grow their own', in part because of the retention and progression benefits of apprenticeships, but also because they feel that entry level wages are too low for experienced or older people and would be difficult to recruit to. The central HR function provides departments (where recruitment decisions take place) with advice as to how to recruit their apprentices, and the levy pot means that the departments do not incur the costs:

*“We have always been quite pro-apprenticeship anyway, but more people were keen on recruiting apprentices because it is funded through the levy. Also, if existing staff went on a course through the levy it may not have happened before because had to pay for it themselves. We are gradually branching out in terms of the type of apprenticeships, if we find one that suits us. We have used some of the levy for some Higher level and more expensive apprenticeships.” (Levy paying, high cost employer LP\_HC7)*

For another organisation, the lack of a central function means that there has been a lack of strategic direction and its levy pot is not being fully utilised. It is starting to happen but will take time:

*“We do not use all of our levy funds but we would like to change this. At the moment there is no centrally planned process; each department decides its own requirement. This means that there a certain departments that are not as aware as others about the potential to take on apprentices and the funds we have available to train apprentices. For some, an apprenticeship is still associated with a certain type of training (mainly for young people) when it has in fact moved well away from this.” (Levy paying, high cost employer LP\_HC4)*

#### *Low cost apprenticeship levy paying employers*

One levy paying low cost apprenticeship employer had undertaken central strategic planning prior to the introduction of the levy. They had increased their apprenticeship recruitment in the immediate aftermath of the levy, and this trend had continued. Their long standing

investment in apprenticeships was underpinned by the companies core values in developing the skills of its workforce (new talent, developing existing workers and progression) but also providing training opportunities for young people and increasing the diversity of its workforce. It also had a desire to maximise its levy spend but this was dependent on the needs of its business units. One of these business units delivered customer service apprenticeships. The company would like to expand these apprenticeships (both the number and level) further but were unable to do so because of the costs of backfilling while apprentices were training. Another business unit had also expanded their apprenticeships (both the numbers and levels) and had not been constrained because there was greater flexibility over when the apprentice needed to be physically present in the workplace and when they could do their training (in the classroom and virtually). Although the organisation runs two large apprenticeship programmes, they also use the levy to fund smaller, more specific areas of training (such as legal staff and lorry drivers):

*We are not spending the whole pot, only about a fifth of it. But there is no pressure on us to spend it so we can base apprenticeship decisions on business need. We have expanded our programmes in numbers, levels and standards e.g. without the levy we wouldn't have put people through the Level 6 Chartered Management. The levy has supported us to expand. So it is partly business need but the levy has provided us with the resources to do this".*  
(Levy paying, low cost employer LP\_LC4)

However, for the other levy payers with low cost apprenticeships, numbers were static or declined. One of these (see Box 3) had high hopes for their apprenticeship programme. Based in the hospitality sector they planned to expand their apprentice numbers from zero to ten, and to use apprenticeships to recruit school leavers from the disadvantaged communities they served, and to create progression routes to management levels within the organisation. As it transpired, apprenticeships proved to be an ineffective mechanism to achieve these goals. Due to a combination of the costs of backfilling apprentices and the demands of the English and maths requirements for disadvantaged school leavers, the organisation has abandoned apprenticeships for recruiting, training and progressing their customer service staff. Instead, they have developed much more effective internal training programmes and write off much of their levy.

### **Box 3: The unintended consequences of apprenticeships**

#### **Levy payer with low cost apprenticeship – Customer service Level 2**

##### *Rationale for apprenticeships*

This organisation did not have any apprentices prior to the introduction of the reforms.

The business saw the levy as an opportunity to develop an inclusive and progressive apprenticeship programme in line with its core social and business values:

*"We didn't have any apprentices before the levy. Originally, we thought it was amazing because we would be able to train school leavers and train them through the levy. Our MD said it's a tax so we should make the best use out of it. We had big plans to create our own Academy training from Level 2 to Level 5 for our own staff but also for other companies."*

The organisation has outlets in inner city areas and employs a lot of staff from there:

*"We employ people from the underprivileged areas of [our city] and it was an objective to give them training and a qualification. Developing people is a core value."*

Alongside developing its apprenticeship programme, the business spent a lot of resources in selling its apprenticeship opportunities to young people. This included engagement with their local schools. Apprenticeships were seen as a means of recruiting customer service staff but also developing and progressing them to higher levels:

*“We were aiming our Team Leader apprentice at school leavers. We went into schools and talked to the school leavers about a career [with us]. We are a family business and wanted to progress these kids into being a store manager. We were excited that we would be able to do this using the levy.”*

*What happened after the introduction of the levy?*

After the introduction of the reforms, the company recruited 10 Level 2 apprentices. However, they soon realised that there were problems especially on the cost side:

*“After the first year we sat down with the training provider and the Academy manager. We looked at store costs and the impact of the apprentices on the store costs in a lot of detail. The 20% off-the-job training was a big cost. The apprentice went to the Academy one day a month. Then there was in-store training one day a week learning practical things. Then doing assignments and research was additional to that. Also the 20% didn’t take into account holidays and sickness. The apprentice was not included in the rota but the managers time needed to be backfilled”.*

Another barrier was the functional skills requirements, as many of the school leavers had low or no qualifications, and they found maths and English a challenge:

*“They had to pass maths and English. This was self taught on-line, they had to do this in their own time because it wasn’t part of the 20%. Some kids didn’t have computers at home, so we allowed them to do this in store using the store’s computer but this tied up the store computer. We had to provide additional basic skills support in addition to the training provider’s basic skills tutors.”*

*What were the eventual outcomes?*

Very few apprentices completed their programme and a number left the business because they found the apprenticeship too hard, especially maths and English. The company then diverted the apprenticeship to existing staff but they faced the same problem:

*“We tried to bring in school leavers but that didn’t work so we used it for existing staff instead. But they found it really hard to work as well. So we decided to bring it to an end because of the maths and English and it was too academic for them.”*

In addition, having existing staff as apprentices meant they had to take two people off rota instead of one and so it became too expensive:

*“We have now stopped taking on people below Level 4, and have developed our own in-house training for them instead. We’ll use the modules but do it without the apprenticeship. Do it practically rather than academically. Now we just have three apprentices, two on CIMA and one on the Level 5 accountancy apprenticeship. We still pay the levy. We still want to grow our own but not through an apprenticeship.”*

For two other levy payers with low cost apprenticeships, their apprentice recruitment is fully dependent on business demand. If their business (and thereby workforce) expands and they need to take on new staff, they will take on apprentices. Therefore, the levy (or the other reforms) is not an important factor in their recruitment decisions:

*“It depends on our business needs, nothing to do with the programme. Apprenticeships are a means to an end. Our levy pot for the next 12 months*

*is £85k and in the last year we have spent £52k. Its about business need rather than spending the pot.” (Levy paying, low cost employer LP\_LC3)*

#### **4.4.2. Apprenticeship recruitment prior to COVID-19: non-levy payers**

Most non-levy payers (both high- and low cost) said there was no change in their apprenticeship recruitment (see Box 4). The numbers, levels and standards of apprentices did not change from pre-levy days. One employer said there had been a dip in recruitment as the mechanics and implications of the post-levy programme were worked out, but after that it was back to business as usual.

For two organisations (one high- and one low cost), the only change had been that the age of their apprentices had increased, from 16 to 18. The low cost apprenticeship organisation believed that this was as a result of the raising of the school leaving age and young people staying on at school until the age of 18 when they would then decide on an apprenticeship. For the high cost apprenticeship organisation it was more to do with increased demand for higher skill levels within their sector and Level 3 apprenticeships are not appropriate for 16 year old school leavers.

A low cost apprenticeship organisation reluctantly used apprenticeships because experienced staff were not available. The main change for them was an increase in the cost of the apprenticeship because previously they had got it for free. As a result they maximise the apprentice’s time on the job and minimise the impact of any off-the-job training:

*“We have kept the numbers the same. The levy has come in and made us pay for someone else’s qualification and to pay for training. We do the training ourselves, observing and supervising. Any other training the apprentice gets is what all other staff members get e.g. policy updates. We have the tutor from the training provider set them work but they have to do this in their own time. We give them the practical training then they make time for themselves for essays, the qualification work etc.” (Non-levy paying, low cost employer NLP\_LC)*

#### **Box 4: ‘Traditional’ low cost apprentice small employer unaffected by the reforms**

##### **Non-levy payer with low cost apprenticeship – Hairdressing Level 2 (NLP\_LC4)**

###### *Rationale for apprenticeships*

The company had been employing apprentices for over six years. They ran a number of salons and used apprenticeships because:

*“...they are the future of our company. We would much rather grow and nurture our students, train them our way, incorporating our standards and then they become the future of our company. We very rarely have success with people we bring in who have been trained elsewhere.”*

The company owns some of its salons and others are operated on a franchise basis. It trains hairdressers for its own salons and for the franchises.

###### *Intentions prior to the implementation of the levy*

This organisation was ‘on the cusp’ of paying the levy and so they were aware of its introduction. However, it was not influential because of their reasons for employing apprentices (see above) and their successful experience of apprenticeships in meeting their objectives.

###### *What happened after the introduction of the levy?*

It was business as usual:

*“... in the first year we were quite borderline of having to pay the levy. Even if we were to become a levy payer at some point I don't think things would impact on apprentices at all. We weren't too concerned about the levy because we are investing in apprentices, so it isn't a problem.”*

*What were the eventual outcomes?*

Since 2017 the company has reduced the number of apprentices, but this has to do with other factors than the levy. One key factor is the number and quality of school leavers. Any school leavers they now recruit are placed on an eight week Traineeship before progressing on to the apprenticeship. In addition, there has been a change to the standards (e.g. barbering) and because of the funding band is too low:

*“Some of the other apprenticeships we used to deliver we don't now because we can't meet the standards required in some of them, and the evidence is so expensive to run. Barbers is such an expensive programme to run it was not cost-effective for small numbers.”*

Whilst the 20% off-the-job training is not an issue for hairdressing apprenticeships (because traditionally it is the norm) it has been an issue for other apprenticeships they have run, such as customer service and management.

#### **4.4.3. The apprenticeship cost-benefit calculation**

*Is there a greater focus on benefits outweighing costs – levy payers*

Most **levy payers** did not focus on the cost benefit calculation as a result of the levy and there was no differentiation between employers with **high- and low cost** apprenticeships. The main reason was that these organisations always needed apprenticeships, they had been offering apprenticeships for a long time and it had served them well. There was an implicit understanding that apprenticeships were good for the business. Allied to this was the knowledge of how far they were spending their levy budget (which most had underspent):

*“We have always been an apprentice employer. There is a demand for recruits which we can fill through apprenticeships, and standards have changed so we can use them in other areas. We keep an eye on the pot but it is so far away from the ceiling its not an issue. The pot sits within the centre so the teams don't take a hit.”* (Levy paying, high cost employer LP\_HC1)

Three levy payers (two high- and one low cost) said that they focus more on the cost-benefit calculation but only on the cost side because it was easier to calculate:

*“We can quantify the costs but not the benefits, this has been the case ever since I've been involved in apprentices. We know costs vary between different businesses e.g. 20% is a bigger issue in some areas due to backfilling, and those on lower levels need to be loaned equipment like laptops. We know retention rates and levels of engagement [e.g. job satisfaction] are higher for apprentices. So, I would hope benefits outweigh the costs.”* (Levy paying, low cost employer LP\_LC4)

In another example the benefits of apprenticeships were not calculated because they are part of the organisation's values:

*“Costs are always scrutinised heavily. However, the priority for us is about people development, providing opportunities for learning and development, and diversity.” (Levy paying, high cost employer LP\_HC9)*

This organisation had developed the business case for apprenticeships in 2013 because they had an issue with the retention of some of their professional staff. This prompted the development of an apprenticeship programme which met staffing needs at a lower level, but also created progression routes to senior professional levels and led to higher levels of retention. It also helped create a more diverse workforce. Over the past decade nothing has happened within the organisation to alter this view and so it is an accepted basis for apprenticeship planning. The levy has now given them a ring fenced budget to fund apprenticeships if and where they want to.

A high cost apprenticeship employer was keen to undertake a more detailed analysis of costs and benefits but had not achieved this to date:

*“Calculating the costs and benefits is something I’ve been trying to get [our sector skills council] to do work on for the sector. What we do is work with our business areas to identify what they need in a training programme, and make sure that it aligns with an apprentice standard. We know the costs of a programme because it is what the business is willing to pay. The benefits are through people doing the job and retention and progression. But we don’t calculate it scientifically, although we do monitor retention and progression. We believe benefits outweigh the costs, in terms of retention and progression. And we know we have the levy.” (Levy paying, high cost employer LP\_HC2)*

Two organisations had focused more intently on apprenticeship costs and benefits. For one, with low cost apprentices, it led them to abandoning their apprenticeship programme for customer service as both the financial and non pecuniary costs greatly outweighed any benefits (see Box 3). A high cost apprenticeship employer had developed a sophisticated workforce planning model to calculate apprenticeship costs and benefits:

*“Apprenticeship recruitment was largely driven by the outcomes of the workforce planning model (meeting replacement and upskilling needs). We studied the cost of going directly to the market and bringing in a skilled technician versus how long the skilled technician tends to stay versus the upfront cost of investing into someone for 3-4 years and the medium to long term benefit they gain in terms of output and retention. The main route to the business is now through the apprenticeship or the university graduate route. The level of external direct hiring is quite low unless it is for a very unique skills set that we don’t think we can train up.” (Levy paying, high cost employer LP\_HC5)*

#### *Is there a need for incentives to take on apprentices – non-levy payers*

Non-levy payers were asked whether they should be given support to take on apprentices. All but one said no. The main reason why non-levy payers did not need additional support was that because they always need apprentices and would continue to do so irrespective of external support.

The one non-levy payer who thought they needed support, thought it was specifically needed in order to encourage employers to take on 16-18 year olds. They were a high cost

apprenticeship employer (that also provided training for others) and provided the example of an Apprenticeship Training Agency (ATA) which they were a part of in their sub-region. This decreased the cost (including insurance costs) and administrative burden on SMEs. Previously, larger employers would have taken on 16-18 year olds but since the introduction of the levy they had reduced this and were now training more of their existing employees. This would lead to future skill shortages which the ATA was designed to address.

#### 4.5. Impact on Higher level apprenticeships

Section 2.4.1 showed that there has been a large increase in the number of Higher level apprentices. This trend pre-dated the introduction of the levy but has been evident since Spring 2017.

In the sample, around one in six apprentices were on Higher level apprentices (i.e. Level 4+). All but one of these Higher level apprentices was employed by a non-levy payer (with high cost apprenticeships). One other non-levy payer occasionally recruited Higher level apprentices, and had one in 2016. This company was also involved in Knowledge Transfer Partnerships (KTPs) with local universities and was very positive about Higher level apprenticeships and link ups with universities generally:

*“If we took on a degree apprentice, they and we would get the knowledge and there'd be fresh blood. We have had [KTP] students doing their projects here and I look at this way, it doesn't cost us much but if they come up with any new ideas we'd be quid's in. They help you to see things in a new way.”* (Non-levy paying, high cost employer NLP\_HC1)

All levy payers with high cost apprenticeships currently employed Higher level apprentices, as did three of the five employers with low cost apprenticeships. For three levy payers (two high- and one low cost apprentice employers) Higher level apprenticeships comprised all of their apprentices in 2019. And in two other cases (one high- and one low cost apprentice employer) they were the largest number amongst other levels of apprentices. The expansion of Higher level apprenticeships was in addition to other levels of apprenticeships.

For most levy payers with low cost apprentices, Higher level apprenticeships were recruited on an ad hoc basis if existing staff wanted to do one or if there was a specific business need.

For the other levy payers, mostly those with high cost apprentices, there were a number of reasons:

- **Replace or complement graduate recruitment.** Two employers had added degree apprenticeships alongside their graduate recruitment. The reasons why these employers were using to degree apprenticeships to complement rather than replace graduate provision were: because their degree apprenticeship programmes were relatively new they could not yet replace the volume of graduate level staff they needed; and because there were advantages (including diversity) and disadvantages (mostly the 20% off-the-job training) to degree apprenticeships. For these two organisations, degree apprenticeships were offered primarily to new recruits. One organisation had stopped recruiting graduates several years ago because they found it more cost effective to progress their own staff. For this organisation degree apprenticeships were primarily for existing staff.
- **Replace non-apprenticeship provision.** These were organisations that ran existing courses but decided to convert this provision to Higher level apprenticeships. In two



cases the main driver was to utilise their levy spend on provision that was required by the organisation:

*“Before we never ran anything lower than a Level 3 apprenticeship. But next September we are looking at our first degree apprenticeship programme. Our Level 4 provision was developed and delivered internally but we switched to Level 4 apprenticeships after the introduction of the levy. We have an unspent levy pot so we can take on as many apprentices as we want. We are looking at changing more non-apprentice into apprentice training. For example, there are quite a few courses (e.g. ACCA and ACA qualified or AAT) all of these can be switched to an apprenticeship.”* (Levy paying, high cost employer LP\_HC1)

The third organisation decided to convert its internal higher level provision to apprenticeships because it was a better workforce development programme for the learner and for the company:

*“We had an internal programme at this level but it didn’t seem to work. It was difficult to recruit people on to it and there were problems with retention. So, we had an internal review, looked at the standards and saw that they aligned with what we wanted. The degree apprenticeship is more attractive and appealing to people rather than an internal training programme. It gives people a portable, widely recognised qualification. But it also helps to keep hold of people because it’s a strong programme that gets them into engineering roles and this will increase retention. It is for new recruits not internal.”* (Levy paying, high cost employer LP\_HC2)

- **To meet replacement demand.** Two organisations used Higher level apprenticeships because they knew they would need to replace people in their ageing workforce when they retired. One employer found it difficult to recruit staff to higher level occupations whilst the other preferred to ‘grow their own’. In both cases the degree apprenticeships were for new recruits rather than for existing staff.
- **To meet a gap in the workforce.** One organisation developed a Level 4 apprenticeship to meet an occupation gap in their workforce. They regularly recruited graduates but realised that there aspects of the graduate role that would be better undertaken by a new occupation grouping, and the Higher level apprenticeships was developed for this role.

A number of employers mentioned increased diversity as a driver, and an advantage, of running Higher level apprenticeships. Most (but not all) of these employers did cite CSR as a rationale for taking on apprentices, of which diversity and inclusion was a key element. These employers believed that Higher level apprenticeships recruits were a more diverse group than graduates, and they could also apply their diversity and inclusion processes to selection. In some cases diversity and inclusion meant giving local young people an opportunity, whilst in others it targeted particular groups (e.g. BAME). In two cases it supported wider initiatives within the organisation, for example, BAME women in leadership. There were also advantages to the business in these approaches:

*“We attract a different person than those in the graduate programme. This brings ‘diversity in thought’ and in my experience it brings people who are*



*driven, motivated, loyal and committed.”* (Levy paying, high cost employer LP\_HC9)

The main disadvantage to Higher level apprenticeships was the 20% off-the-job training commitment. Managers are concerned that they will lose key staff for the equivalent of one day per week. Because of this organisations have worked hard to explain what off-the-job training involves:

*“There is some hesitancy from managers over what the 20% will involve but we are creating examples of what the 20% looks like in order to convince managers e.g. work shadowing and mentoring can be included. So it’s not one day off a week. Lots of mandatory training that people have to do to upskill anyway e.g. safety, mental health, diversity can all be included as part of the 20%. So far, we have not received much resistance from managers, they are surprised what can be included in the 20%.”* (Levy paying, high cost employer LP\_HC1)

#### **4.6. Awareness and impact of T Levels**

Half of respondents were aware of T Levels. Although this was mostly levy payers, there was a mix of levy and non-levy, high- and low cost apprenticeship employers who knew about T Levels. For some non-levy payers this was because they trained people for other organisations and so they had a wider knowledge of the learning and skills landscape.

Respondents were asked whether T Levels would affect their apprenticeship recruitment or other training. There were five main views:

- **No impact on apprenticeships.** A number of employers believed that T Levels would have little impact on their apprenticeship programmes. For some this was because they only ran Higher level apprenticeships. But others said that they had been well served by apprenticeships and would continue with them.
- **Not appropriate for the sector.** This response tended to come from those in traditional apprenticeship standards. They could not see where T Levels fitted into the topography of vocational provision, especially given the preponderance of Intermediate and Advanced apprenticeships. Some could not see where T levels fitted in. If someone gained a Level 3 T Level, which apprenticeship or level of training would this fit into – Level 2, 3 or 4? So, they could end up competing with apprenticeships.
- **Feeder for apprenticeships.** Two employers envisaged that T Levels may feed into their apprenticeship programmes. One currently runs a conversion course for its Level 3 apprentices (who are school leavers) and T Levels could replace this. Another could see that T Levels could feed into their Level 4 apprenticeships.
- **May affect other provision.** One company recruited young BTEC graduates on to its management apprenticeships and were concerned that T levels could push out BTECs, which they preferred as they provided a good balance of education and work experience.
- **Wait and see.** Several organisations were taking a wait and see approach, for example, monitoring the outcomes of the first rounds of T Levels that are currently underway.

Generally, most respondents said that they did not have sufficient information to make a decision on the organisation's commitment to T Levels.

#### **4.7. Impact of COVID-19**

Towards the end of the interviews, respondents were asked about the immediate and medium term effects of the pandemic on their apprenticeship programmes.

##### *Immediate impacts*

For most employers, the pandemic did not affect their apprenticeship recruitment immediately because they had already taken on their apprentice numbers (September-October is the usual month of recruitment). For those planning recruitment in 2020 most were planning to carry on as before, in the main because their businesses had carried on throughout the pandemic or had not been affected by it. Most of the non-levy paying low cost apprenticeship employers were planning to reduce or pause their recruitment because of the lockdowns.

COVID-19 impacted on planned recruitment where apprenticeships has been paused and this extended the end date of completion. As a number of employers operated a roll-on:roll-off approach to apprenticeships, this halted or delayed the numbers they would normally recruit in September/October 2020 as the previous batch had not completed.

One employer had halted their apprenticeship recruitment because they used it to replace staff and workforce retention had increased due to the pandemic. Some employers had made existing staff redundant but decided to retain their apprentices, partly because apprentice costs to the business were low but also because they did not want to make their young apprentices redundant and blight their future job opportunities.

The main immediate impact of COVID-19 was the move to online training, and for most this has been a positive move, primarily because it provides greater flexibility:

*“As far as the training is concerned the pandemic has been beneficial. Getting people together in a classroom was difficult but online you don't need minimum numbers or people in a geographical area. In the past it would only have been cost effective to run a session if there were X number of people from that region. Online we can bring people together from different parts of the country. It has made us think differently. There's different ways, we have a great learning and development team, and they work closely with training provider. Now you can suit every learning style e.g. do remote learning with live online learning. Looking to the future this could significantly reduce costs - travel, subsistence, venue hire.”* (Levy paying, low cost employer LP\_LC4)

However, for some organisations online learning maybe beneficial to some apprenticeship programmes but not all. Others took a blended approach, one employer still wanted to give their apprentices the hands-on experience (parallel to online learning), and so invested in PPE and developed training that could be delivered whilst social distancing:

*“We reprofiled the curriculum so the apprentices could catch up. We had to dramatically change the way the deliver material - social distancing, face masks, things that we would show people on a 1:1 basis we either have to do remotely or with additional PPE, so we fundamentally changed the delivery model. This might go on for a year. I don't know. We have to absorb the costs.”* (Levy paying, high cost employer LP\_HC5)

Several organisations who continued to recruit apprentices also moved their recruitment online. Those that did continue to recruit apprentices saw the number of applications rise, including in some cases a noticeable increase in applications from customer service sectors that had locked down.

Around one quarter of employers paused apprenticeship training but still kept the apprentice on the job. In some cases this was because they operated in key sectors (e.g. care and food retail) and could not afford apprentices to be off training or supervised by other staff whilst there was so much pressure on the organisation. In about a quarter of cases apprentices were furloughed which enabled some employers to pause and plan out what they needed to do. For others it was because their businesses were locked down:

*“The impact on training has been huge, absolutely massive. Currently we are all on furlough. The industry is in lockdown. In total people have been out of practical work for seven months if the lockdown continues until the end of March [2021]. In the first lockdown all were furloughed then when this was lifted there was a lot of theory but not a lot of client work due to social distancing. In the second lockdown they were all furloughed again and in the third lockdown because you can't learn hairdressing through theory and Zoom lessons.”* (Non-levy paying, low cost employer LP\_LC2)

Whilst many moved training delivery online, this was more difficult for the work experience aspect of apprenticeships. Around half of employers said that they either paused their apprentices or furloughed them. They planned to resume apprenticeship working and training after these periods but there was some concern over the training that had been missed:

*“All finish dates have been moved back 9 months. The college was closed and they have not been able to do the practical work.”* (Non-levy paying, high cost employer LP\_HC2)

There was also some confusion over whether the EPA and end date of the apprenticeship could also be put back.

Furlough and pauses in training did impact on recruitment in September/October 2020, but it has also led in some instances to a bottle neck in training:

*“The students are four months behind because we had to space them out and they were only coming to the academy every other week and then online. There are now 40 students behind their end date and we have ended up with three years of new starts all running at the same time. They need refreshing to be able to finish and we'll be doing this free of charge because we've run out of funding. They also need to catch up on the practical work missed. I'm not sure how to get round this particularly if there is a need to continue with the social distancing.”* (Non-levy paying, low cost employer LP\_LC2)

### *Medium term impacts*

Respondents were asked about the impact on apprenticeship recruitment in the next '12 to 18 months'. Overall, employers were more optimistic about recruitment levels returning to normal. Of those who said there would be an immediate reduction in apprenticeship numbers all but three said that recruitment would return to pre-COVID levels. In a number of cases this was a return to the roll-on:roll-off approach to apprenticeship recruitment, and when the

current group completes they will be replaced with a new batch of apprentices or they brought in new apprentices when existing staff left and vacancies arose.

For some organisations the return to normal would still mean changes to their apprenticeship programmes. Some predicted that there would be a switch from recruiting new apprentices to using apprenticeships to upskill existing staff. For levy payers uncertain about business prospects over the coming year, an important driver was still spending the levy and if this could not be done through new recruits then it could be used for training current employees.

Only three respondents said that they were planning to reduce apprenticeship numbers in the next 12-18 months. For two (both non-levy paying low cost employers) this was because of bottlenecks in the training of their current apprentices leading to delays in future recruitment. One did not expect demand for their services to return to normal for a couple of years and this will halt their recruitment of apprentices.

Five organisations did plan to increase levels of apprenticeship recruitment in the next 12-18 months. For some, this would be dependent on levels of business demand (which they expected to increase). Others (both levy payers) expected an increase in requests from departments that had not previously taken on apprentices, the desire to spend the levy was the main driver here. Another organisation had to take on apprentices because they could not find experienced staff, and once business returned they would expand their recruitment.

Over the longer term (in five years time) most respondents said that they were likely to increase their apprenticeship recruitment. This was predominantly amongst levy payers, both low- and high cost apprenticeship employers. Most provided the caveat that it depended on business levels rebounding from the impact of the pandemic.

Some others expected Brexit to play a role because they could no longer recruit experienced and qualified overseas workers (a low cost apprenticeship employer).

CSR also played a key role for a number of employers expecting recruitment levels to increase or be maintained at pre-pandemic levels. Providing opportunities, especially for young people, will still be a driver for their apprenticeship recruitment.

#### **4.8. Main findings**

The research planned to interview those employers whose views were captured by the June 2017 survey, and compare with what actually happened. However, few employers from that survey were available to speak either because they no longer existed, the original respondent was not there, and/or they were in sectors locked down or made busy by the pandemic. Instead we asked respondents to recall what their plans had been at the time of the levy's introduction.

Employer's gave several reasons for taking on apprentices: to train new recruits; because they had in the past and had positive experiences; to 'grow their own' staff; for CSR reasons (especially for young people); to spend the levy; train existing staff; to address recruitment difficulties; and because apprentices are cost effective employees.

The introduction of the levy tended to pass non-levy payers by ('what levy?'). For levy payers, some planned extensively for its introduction and others realised that it would provide them with a dedicated pot of money ('use it or lose it'). But for most levy payers and non-levy payers the main reaction to the levy was business as usual. In some large organisations, the central HR function may have been aware of the levy and its implications, but individual departments were not and this is where apprentices are recruited. Without promotion from the centre,

recruiters were unaware. For most levy payers and non-levy payers, apprenticeship recruitment decisions at the time were largely based on business demand and recruitment was planned on this basis.

The impact of the other reforms varied. Standards were generally welcomed and some levy payers had become involved in the Trailblazers so the resulting standards were appropriate for their organisation. In particular, the advent of degree apprenticeships was also viewed positively. The greater stipulation of the 20% off-the-job training requirement had varying effects. Those delivering 'traditional' apprenticeships were not impacted because this level of training had always been required. Some respondents were confused as to what was to be included in the definition of 'training'. A negative effect was felt by those organisations that worked on customer:staff ratios (e.g. care and customer service) and who needed to additional staff when the apprentice went off training.

After the levy was introduced most levy payers increased their apprenticeship recruitment, only one reduced the number. This expansion was either in the number, level or standards of apprenticeships or a combination of the three. The expansion was a result of: business demand (leading to recruitment demand from within the business some of which could be met by apprentices); strategic assessment and planning of imminent and future workforce needs (which identified apprentices as a cost effective solution to these needs); and having a ring fenced resource from which training and recruitment needs could be met. But often the expansion was dependent on a central HR function assessing or understanding the benefits of apprenticeships and then promoting them throughout the organisation. Those organisations that did not have this function tended to carry on with business as usual.

Non-levy payers carried on as before in the aftermath of the levy. A small number reduced apprentice numbers either due to the added costs or because recruitment was paused until they fathomed the implications of the reforms for their business.

In the medium term, and before the pandemic struck, most organisations expanded their apprentice numbers. But this varied between levy- and non-levy payers and high- and low cost apprenticeship employers. Most levy payers with high cost apprenticeships expanded their recruitment based on, in some cases, a cost-benefit analysis, arising workforce training and recruitment needs, and CSR. As mentioned previously, levy payers now had a dedicated apprenticeship resource but this depended on a central function that promoted this and aware of its size and usage.

One levy payer with low cost apprenticeships increased recruitment and this organisation had undertaken workforce planning. For some it was business as usual largely because apprenticeship recruitment was dependent on business demand. Two organisations reduced their apprentice numbers but for one this was due to a technical issue concerning the availability of standards. One organisation had such bad experiences of apprenticeships that they almost abandoned them. The main issues were the need to backfill staff and the amount and level of training required (especially English and maths) relative to the qualification levels of the people they recruited.

Most non-levy payers based apprentice recruitment on business demand and, in some cases this led to increased recruitment, in others it led to numbers being maintained.

Despite the cost-benefit ratio being changed for levy payers by the introduction of the reforms, most did not undertake any additional analysis or calculation. Most had long standing apprenticeship programmes which had served them well over the years so there was an

intuitive understanding that the organisation benefitted overall from their apprenticeship programmes. However, this understanding was coupled with the realisation that there was a levy pot and it went largely unspent. Those who did recalculate the cost-benefit ratio focused on the cost side of the equation because benefits were difficult to calculate. In some cases this was because the benefits were part of the organisation's values (e.g. CSR) to which it was difficult to attach a monetary value.

Non-levy payers were asked if they required any additional support or incentives for their apprenticeship programmes. As with levy payers, most had long standing apprenticeship programmes which they viewed positively and this would not be affected by additional support.

Respondents were also asked about effects of the pandemic. The immediate impact was not on numbers recruited but on training, with it being paused or moved on-line. Most recruitment had taken place earlier in the academic year but the later completion of apprentices affected recruitment in September/October 2020. Whilst there were pauses in training and furloughed staff very few employers said they made their apprentices redundant.

In the medium term, employers were more optimistic about recruitment levels returning to normal with only three planning reductions. A larger number planned expanding apprentice numbers. Over the longer term most respondents said that they were likely to increase their apprenticeship recruitment. Some others expected Brexit to play a role because they could no longer recruit experienced and qualified overseas workers. CSR also played a key role as employers still wanted to provide opportunities, especially for young people.

## 5. Conclusions

### 5.1. Introduction

IER was commissioned by the Edge Foundation and the Gatsby Foundation to undertake research into the impact of the Spring 2017 apprenticeship reforms on employer behaviour.

The study was planned and started just before the COVID-19 pandemic in March 2020. This led to a delay in the fieldwork as the first lockdown significantly affected employers and apprentices. As a result interviews took place over a longer time period than planned (and throughout the pandemic) as lockdowns were implemented.

The main aim of this research project was to explore why employers substantially reduced their apprenticeship provision after the introduction of the reforms in Spring 2017 when, at the time, they said that they planned to maintain or increase their apprenticeship levels. The analysis at the time suggested a paradox, those employers ostensibly least affected by the levy (i.e. non-levy payers because they would not be paying the levy) were more likely to reduce their apprenticeship recruitment in the short- to medium term. According to surveys at the time, most employers planned to reduce apprenticeship recruitment initially but then increase it in the medium term.

As it turned out, the introduction of the apprenticeship levy in Spring 2017 led to a significant reduction in the number of apprentice starts overall. It continued pre-reform trends to higher level and older apprentices, and those who were existing employees rather than new recruits. It also led to a large increase in apprentice recruitment by levy payers and a fall in those recruited by non-levy payers.

### 5.2. Conclusions

The interviews in this study were conducted with a relatively small number of employers and therefore the findings need to be regarded as indicative rather than definitive. They suggest that apprenticeships, both pre- and post-levy, remains an important means through which employers meet their skill needs. But it is also apparent that the levy has had an impact on employer behaviour not just in relation to the fall in the number of apprenticeship starts but also the type, age and level of the apprentice and the employers who recruit them.

Some of these impacts are transitional, such as: understanding the new regime where several significant changes were made at once; co-ordinating spending of the apprenticeship levy in large organisations where apprenticeship recruitment was decentralised; and, latterly, the pandemic which seems to have reduced the number of apprenticeship starts. It is expected that these effects will diminish with time.

But there are more structural changes which appear to have been ushered in following the 2017 reforms. These are:

- a reduction in apprenticeship recruitment by non-levy payers;
- an increased preference for people working towards higher level apprenticeships, especially degree apprenticeships;
- specific barriers in particular sectors and apprenticeship standards, such as, backfilling costs in care, hospitality and retail.
- A continuation, and potentially an acceleration, of trends in the profile of apprentices.

The employer interviews suggested that most non-levy payers had managed to accommodate the changes introduced by the 2017 reforms mainly because they had little or no effect on

them. Surveys at the time, and subsequently, report that non-levy payers were less likely to expand recruitment (keeping numbers at the same level). By and large non-levy payers in this study were recurrent recruiters of apprentices who highly valued the training delivered by apprenticeships and were able to readily navigate the system post-2017 because, for them, the system had changed little.

Nevertheless there is indicative evidence that the requirement to contribute to the costs of apprenticeship training can pose a problem and a disincentive to train apprentices. The statistical evidence clearly shows how, post-reforms, the number of non-levy payers taking on apprentices had substantially dropped-off. It is important to emphasise that this is related to paying the levy and not to employer size, for example, large non-levy payers reduced their apprenticeship numbers whilst small levy payers increased theirs. It is not clear why this should be the case for non-levy payers, other than an accumulation of small but additional costs and changes to the apprenticeship programme such as: the 10%/5% contribution to the cost of training; the 20% off-the-job training requirement; changes in standards and the availability of certain standards (Julius et al 2021); and, some preferred providers not being on the RoATP. Levy payers have been equally affected by some of these changes but they have the added incentive of spending their levy pot.

For non-levy payers, additional resources are potentially available as levy payers are able to transfer 25% of their levy pot to another employer though this has not yet happened to any great extent. However, there is evidence from this and other studies that it is beginning to happen (Dickinson, November 2020). In addition, some MCAs have negotiated the development of unspent apprenticeship funding pots for SMEs in their areas (such as West Midlands Combined Authority<sup>36</sup>).

The evidence points to an increased preference for employers, especially levy payers, to make use of higher level apprenticeships. In some cases this is through transferring existing training to an apprenticeship. Some employers indicated that the move to higher level apprenticeships is the direction of travel within their sectors i.e. the increased demand for people with higher level skills which apprenticeships are now able to deliver. By and large these are relatively costly ones to both employers and the Government. The danger is that, because Level 4+ apprenticeships tend to be higher cost than those at Level 2 or 3, fewer will be taken on. This may be less of an issue for employers with an under spent levy pot but could be for non-levy payers dependent on fixed or diminishing Government apprenticeship funding.

In line with the shift towards higher level apprenticeships there is also a further continuation of pre-levy trends away from what might be considered the traditional profile of an apprentice. Historically an apprenticeship might have been regarded as a key part of the school to work transition with young people gaining formative skills at Levels 2 or 3. The apprenticeship system introduced in 1994 was not limited to serving this group and over time apprenticeships came to serve the skill needs of a wide range of groups, notably older workers without qualifications and/or those looking to change or progress in their current jobs.

The reforms have increased levy paying employers' financial investment in apprenticeships, and to have stimulated their preference to use it to train existing staff at higher levels, sometimes through converting existing provision to apprenticeships. Employers, primarily levy payers, clearly see the economic benefits of using apprenticeships to deliver higher level skills

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<sup>36</sup> <https://www.wmca.org.uk/what-we-do/productivity-skills/the-apprenticeship-levy-fund/>



to their existing employees. If the levy has skewed provision to higher levels, this then begs questions about the resources available to train young people at Levels 2 and 3, especially as it is non-levy payers who are more likely to recruit these types of apprentices.

The evidence points towards the apprenticeship reforms, primarily the levy, bringing about behavioural changes amongst employers. It has incentivised levy paying employers' investments in higher levels skills often delivered to existing employees. The benefit, potentially, is that of more higher levels skills being produced which benefits the employer and in aggregate the economy. The cost might be a lower number of apprentices being trained (as higher level apprenticeships are more expensive), as well as a continuation of the trends away from younger and lower level apprentices, and non-levy paying employers.

As a result, the levy may have led to more fundamental questions being asked about the purpose of apprenticeships in England, the individuals it prioritises for training and the employers who recruit them. And related to this, what alternatives are available.

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