

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

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

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Glossary

AELP	Association of Employment and Learning Providers
BIS	Department for Business, Innovation and Skills
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
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
MSC	Manpower Services Commission
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. Employer responses to apprenticeship Reforms

In the Spring 2017 a number of reforms were made to the apprenticeship system in England. These included the introduction of the of the Apprenticeship Levy, a minimum requirement that 20% of training be undertaken off-the-job, and the shift from frameworks to standards. The introduction of the Apprenticeship Levy marked a significant break with previous further education policy which, certainly from the 1980s onwards, seemed to avoid this type of intervention in the training market. Prior to the levy's introduction research suggested that its impact on the number of apprenticeship starts might be, at best, modest. As it transpired, in the period immediately after the levy's introduction the number of apprenticeship starts substantially declined. The research reported here, funded by the Edge Foundation and Gatsby Foundation, explores why the reforms introduced in the Spring of 2017 were associated with a fall in the number of apprentices taken on by employers. The study also provides insights into how the pandemic had affected employers' plans to retain and take on apprentices.

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 both 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. Apprenticeship Reforms

Apprenticeships in their publicly funded guise have been through a number of reforms since their introduction in 1994. These reforms are summarised in Figure 1. In general, the reforms have been designed to improve the quality of skills provision, increase the range of people who might become apprentices, and expand delivery to higher levels. An important aspect of the reforms has been to create an employer demand-led programme. For example, from 2013 apprenticeship frameworks have been replaced by standards the contents of which are determined by employer-led groups. Additionally, in the post-2010 period there has been increased interest in how apprenticeship funding might be modified to increase the economic value this kind of training confers on employers and their apprentices, for example, through the move to employer-routed funding so that the employer becomes the purchaser of apprenticeship training.

Figure 1: Timeline of apprenticeship reforms in England 1994-2017



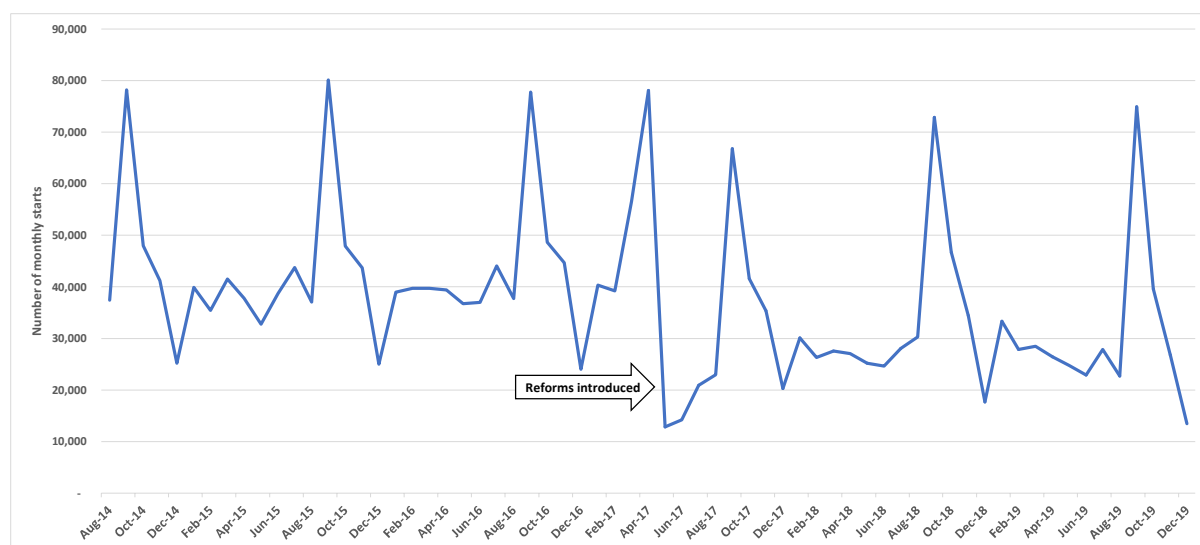
The major change in April 2017 was the introduction of the Apprenticeship Levy where employers with a payroll of £3m or more are now required to pay a levy equal to 0.5% of their payroll. Each apprenticeship standard has a funding level associated with it i.e. the maximum amount the Government will pay for training required by that standard. Employers can then reclaim their levy payment by taking on apprentices.

While the levy was the main element of the reforms introduced in Spring 2017, other changes were made too. These included:

- the introduction of End Point Assessment (EPA) to gauge whether individuals had successfully completed their apprenticeship, and the creation of a registry of Apprentice Assessment Organisations (RoAAO);
- creating a Register of Apprenticeship Training Providers (RoATP);
- a stipulation that 20% of training needed to be off-the-job;
- non-levy payers to pay 10% of training provider costs which had previously been met in full by the Government (later reduced to 5%); and,
- the aforementioned shift to apprenticeship standards.

As Figure 2 shows, following the introduction of these reforms in May 2017 the number of apprenticeship starts fell substantially. In the 12 months prior to May 2017, the number of apprenticeship starts was just under 565,000, but in the 12 months after it fell to 346,000 (a decrease of 219,000 apprentices or -39%). It needs, however, to be borne in mind there was a pre-levy ‘spike’ in recruitment in March/April 2017 just before the reforms were introduced. Controlling for this peak, the annual reduction is still large but reduces to half of the above i.e. a fall of 114,000 or -20%.

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



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

The fall in the number of apprenticeship starts might be considered as unexpected in the sense that ex-ante evaluations of the levy’s impact seemed to suggest only modest changes resulting from its introduction (Gambin and Hogarth, 2016). Research pointed to the levy mainly affecting those apprenticeships where employers sought to break-even on the apprenticeship investment over the training period. These were typically Apprenticeships at Level 2 in certain sectors. If the levy resulted in a sizable net cost of training for these employers, then this might well dissuade them from training. This would then reduce the number of apprentices taken-on because the employer saw little opportunity to recoup any net cost of training in the post-apprenticeship period. The situation was different in relation to apprenticeships which employers regarded as an investment for the future and who were, by and large, confident that their net costs of training could be recouped over the longer-term. These tended to be

higher level apprenticeships at Level 3 and above. The overall net cost of training to the employer was sufficiently large that the levy payment had little impact on their apprenticeship investment decisions.

Echoing the findings reported above, research conducted when the levy was introduced suggested that the slump in apprenticeship starts was likely to be short-term but this differed according to whether an employer was a levy or non-levy payer (Dickinson, 2017). Levy payers were much more confident about the number of starts increasing in order to recoup their levy contribution. Non-levy payers gave a more downbeat assessment of their future apprentice recruitment plans. The main reason here was the 10% employer contribution introduced in 2017 was deemed by them to be 'too much'.

1.3. Objectives of the study

It was against the background set out above that the current study sought to investigate why the number of apprenticeship starts had struggled to recover their pre-levy levels. The study sought to explore a range of issues.

1. Whether previous studies had 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).
2. The extent to which temporary administrative problems resulting from the relatively rapid introduction of the levy had affected the number of starts.
3. Whether there had been 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.
4. If the increased emphasis on quality whereby employers invest more, in a general sense, in the training of their apprentices (regardless of level) reflecting the fact that it is their own money they are spending on training has some bearing on the number of apprentices they can support.
5. How other changes in the apprenticeship systems, such as the migration to standards and the 20% of off-the-job learning requirement, affected employers' recruitment of apprentices.

1.4. Methodology

There were two parts to the study. The first was an analysis of apprenticeship data: over the past 20 years using DfE published apprenticeship data;¹ and two DfE employer surveys: the apprenticeship Evaluation Employer Survey (EAS) 2018/19;² and the Employer Skills Survey (ESS) 2019.³ There was also additional analysis of DfE apprenticeship data which plotted the impact of COVID-19 on apprenticeship recruitment during 2020.

The second element of the study consisted of in-depth semi-structured interviews with apprentice employers. The sample of employers was stratified by two dimensions: levy/non-levy payer and cost of the apprenticeship (see Figure 3). The overall cost of the apprenticeship to the employer was used to capture employers which (a) sought to break even on the apprenticeship investment; and (b) those which regarded it as a long-term investment

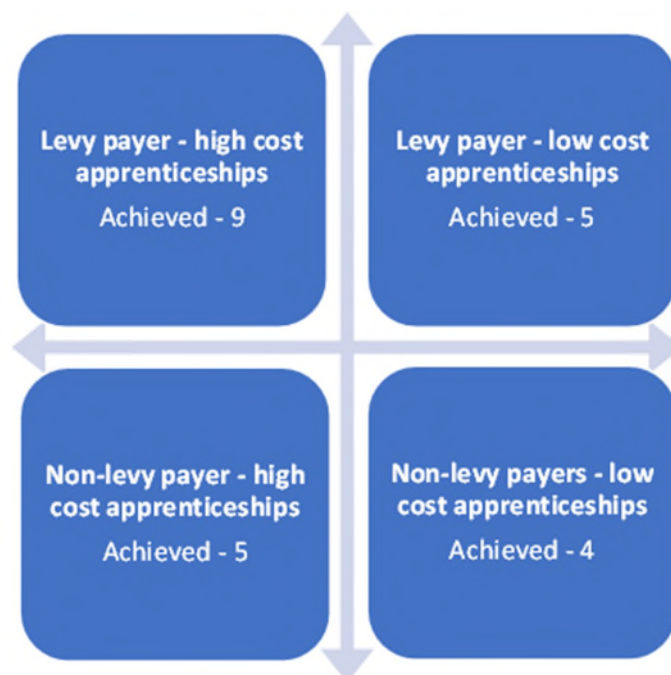
¹ <https://www.gov.uk/government/statistical-data-sets/fe-data-library-apprenticeships>

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

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

decision. Identification of high- and low-cost apprenticeships was derived from the Net Costs and Benefits of Apprenticeship to Employers series of studies (see Hogarth et. al., 2012).

Figure 3: Stratifying the sample



In total 23 employers were interviewed and were drawn from a range of sectors. The principal management respondent was the person in the workplace with overall responsibility for the recruitment of apprenticeships.

1.4.1. Employer respondent profile

There were nine non-levy and 14 levy employers in the survey. As shown in Table 1, in total, the 23 respondents employed a total of 2,852 apprentices in 2019⁴, and were involved in the delivery of 54 different specific apprenticeship standards (or 105 if the different levels are taken into account). The larger employers in particular delivered a number of different apprenticeship standards, while smaller employers would mostly deliver one only. Non-levy employers were mainly concentrated in the: high cost construction and engineering sectors; and low cost hairdressing, and children and young people's sectors. Non-levy payers were more likely to be employing Intermediate level apprentices. 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 a few thousand to over ten million pounds.

Just under two thirds of low cost apprenticeships were in customer service and around one quarter in hairdressing (around one quarter), mostly at Intermediate level. The largest number of high cost apprenticeships were in engineering (just under two thirds) construction (one in six) and management (one in six), mostly at Advanced and Higher levels.

Most apprentices (around four in ten) were aged 25+ with one in six aged 16-18. Levy payers were much more likely to employ 25+ apprentices than non-levy payers, especially on low cost apprenticeships.

⁴ Two organisations had around 1,000 apprentices each.

Table 1: Number of apprentices by level, cost and type of organisation

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

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

Source: IER apprenticeships with hindsight employer interviews

1.4.2. Employer interviews

Initially the sampling frame used was the 148 employers who agreed to further contact from the 2017 study undertaken by Dickinson (2017) for the AELP. In organising the fieldwork it proved necessary to use additional sources, as some respondents from the 2017 AELP survey could not be re-contacted or because the organisation no longer existed. Additional employer contacts were identified from various apprenticeship vacancy advertising websites.

The in-depth employer interviews covered:

- the employer's rationale for taking on apprentices, and a brief history of their 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.

1.5. Structure of the report

The remainder of the report is divided into three further sections:

- Section 2 provides an overview of the development of the apprenticeship system and how the number of apprenticeship starts has changed over time (pre- and post-2017 reforms);
- Section 3 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 4 provides the conclusions from the study.

2. The development of the current apprenticeship system and the role of the Apprenticeship Levy

2.1. Apprenticeships in England since 1994

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 it with anything like the veneration of 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 compared with other countries. In particular during the 1970s and 1980s the apprenticeships system, 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 [MSC]) seemed to become increasingly impatient with apprenticeships to the extent that it increasingly directed investment into a parallel college-based vocational system. This 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).

Publicly funded apprenticeships (Modern Apprenticeships) were first introduced in 1994. They had their roots, 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, seen as important drivers of productivity and competitiveness in countries such as Germany and the Netherlands.

Evidence following the introduction of Modern Apprenticeships in 1994 suggests that they were successful. 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 EQF Level 3 today found that that 77% of employers 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 at the time, 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 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 (20 years 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 (which prompted 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 abiding concerns of policy makers since Modern Apprenticeships were first introduced:

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

In the period following the establishment of publicly funded apprenticeships the emphasis, at least in practice, was to increase the volume of provision. Training providers were funded to deliver apprenticeships which could be used to accredit existing employee's skills or simply to train existing employees to the next level rather than, for instance, training young people recruited specifically as apprentices into a training role. 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, down from around 10% in 1999 (Spilsbury, 2003). The numbers were subsequently built up over the 2000s reaching a peak of 521,000 starts in 2011/12. 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. And more lately, 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 has fallen and Level 3 apprenticeships have plateaued, whilst the numbers aged under 25 years of age has declined.

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 noughties, the Banks 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, 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 to introduce an Apprenticeship Levy in 2017. This would be levied on employers with a payroll over £3m at a rate of 0.5%. Employers could then reclaim their levy payment to pay for apprenticeship training or at least that part delivered by training providers and which was

previously met in full by the government. 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 10% of the total cost (later reduced to 5%) though there seem to be a number of exclusions (such as apprentices on an education, health and care [EHC] plan).

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, as employers are essentially reclaiming their own money and sufficient flexibility in the system for apprenticeships to satisfy 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.

There were some doubts as to whether the levy could increase the number of apprentices, especially in those which require employers to make an investment in future skills needs because the returns arise some years after completion. For example, the net costs to the employer of training an electrical engineer to Level 3 are around £35,000 (Gambin and Hogarth, 2017). In the past, the training required to complete the apprenticeship would have been met by the state. Now the employer will be pay for the training by reclaiming the £21,000 available for training an electrical fitter to Level 3, but will still be faced with the £35,000 cost which accrues from the costs (wages, supervision etc.) of employing the apprentice over the formal training period. So now the full cost to the employer is £51,000.

With the introduction of standards it may be that the net benefits to the employer will increase, even so the employer will face a significant costs. As such, it is difficult to see how the levy would increase training volumes especially at higher levels which the Richard Review suggested should be the direction of travel (Gambin and Hogarth, 2020).

In practice, the levy seems to have dampened the demand for apprenticeships. In 2016/17, before the levy was introduced, there were 484,000 apprenticeship starts with around 12% of employers reporting at least one apprentice on their books (Shury et al., 2017). Following the introduction of the Apprenticeship Levy in 2017, the number of apprenticeship starts fell to 375,000 (i.e. three quarters of what they were prior to levy's introduction) with 11% of employers reporting that they had an apprentice (12% before the levy's introduction). This suggests that the response of employers has largely been that of reducing the number of apprentices they take on but not necessarily reducing the number of apprenticeship employers.

As will be explored in more detail in Section 3 there appears to have been a shift towards employers investing more in higher level apprenticeships which are more costly i.e. the amount to be paid to the provider is relatively high compared with apprenticeships at lower levels. 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 to paying (IFF, February 2020).

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 the Department for Education (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 also has to pay for:

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

If all levy-payers were to draw down their allocation there would be insufficient funding (NAO, 2019). 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 enter the Treasury's coffers (Marsh, 2020). Accordingly, the overall amount of funding available would not appear to be a constraint on participation levels at the moment. But if the preference of employers is to invest more in higher level apprenticeships (which have higher funding bands), this could well change. So funding could yet constrain future growth in apprenticeships.

2.2. Trends in the number of apprenticeships

The commentary above sets out the drivers and outcomes of apprenticeship policy over the recent past as England sought to develop a mass participation apprenticeship system. In order to reveal the scale of change, the analysis which follows reveals how the number of people starting an apprenticeship has changed over the past 20 years or so.

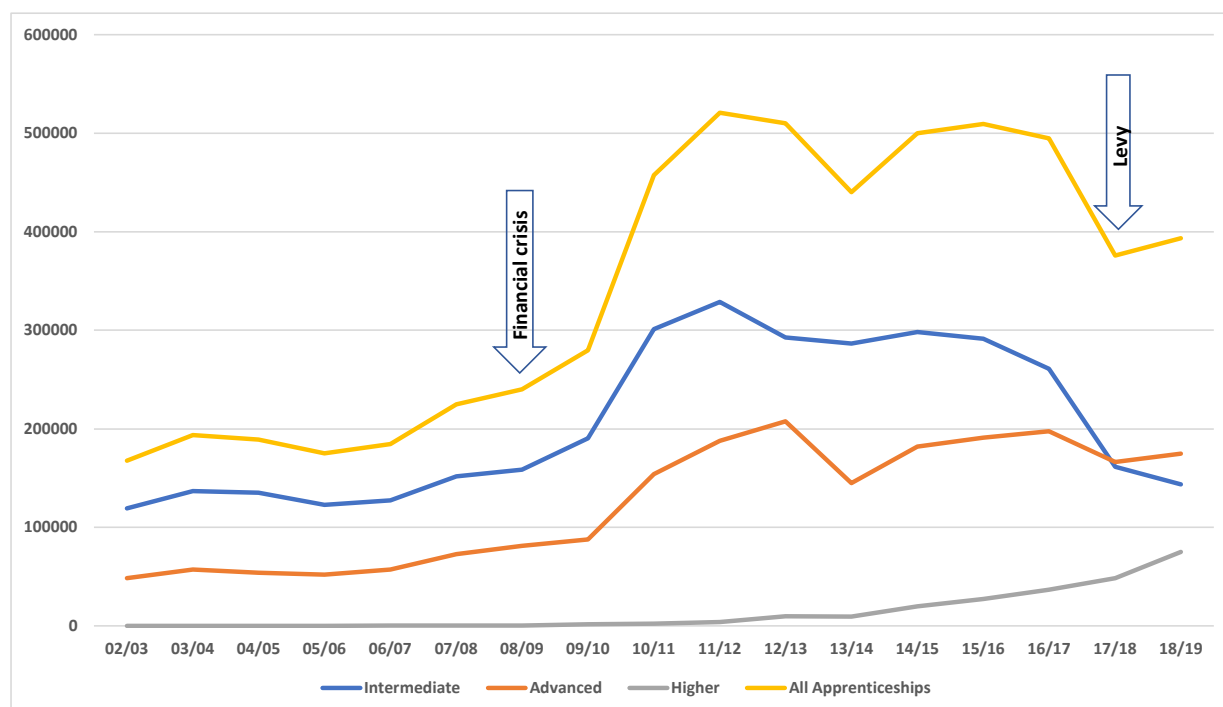
Since the millennium, there has been a significant rise in the number of apprenticeships. Figure 4 shows that between 2002/03 the total number of apprentice starts more than doubled from just over 167,000 to just under 400,000 in 2018/19.⁵ The high point was in 2011/12 when almost 521,000 people started an apprenticeship. Until the introduction of the levy, the annual number of starts had plateaued apart from 2013/14 when 24+ Advanced Learner Loans for apprenticeships were withdrawn.⁶

Furthermore, the characteristics of apprentices and the types of apprenticeship they are pursuing has changed too. Figure 4 shows that there have also been significant changes in the level of apprenticeships. Over the past decade, 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) has 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 substantially so that by 2018/19 they accounted for one fifth (19%) of all apprenticeship starts.

⁵ All years refer to August to July, unless stated differently.

⁶ DfE (October 2017), Further Education and Skills in England, SFR 53/2017.

Figure 4: Number of apprenticeship starts by level 2002/03 to 2018/19



Source: DfE Apprenticeships and traineeships data various years

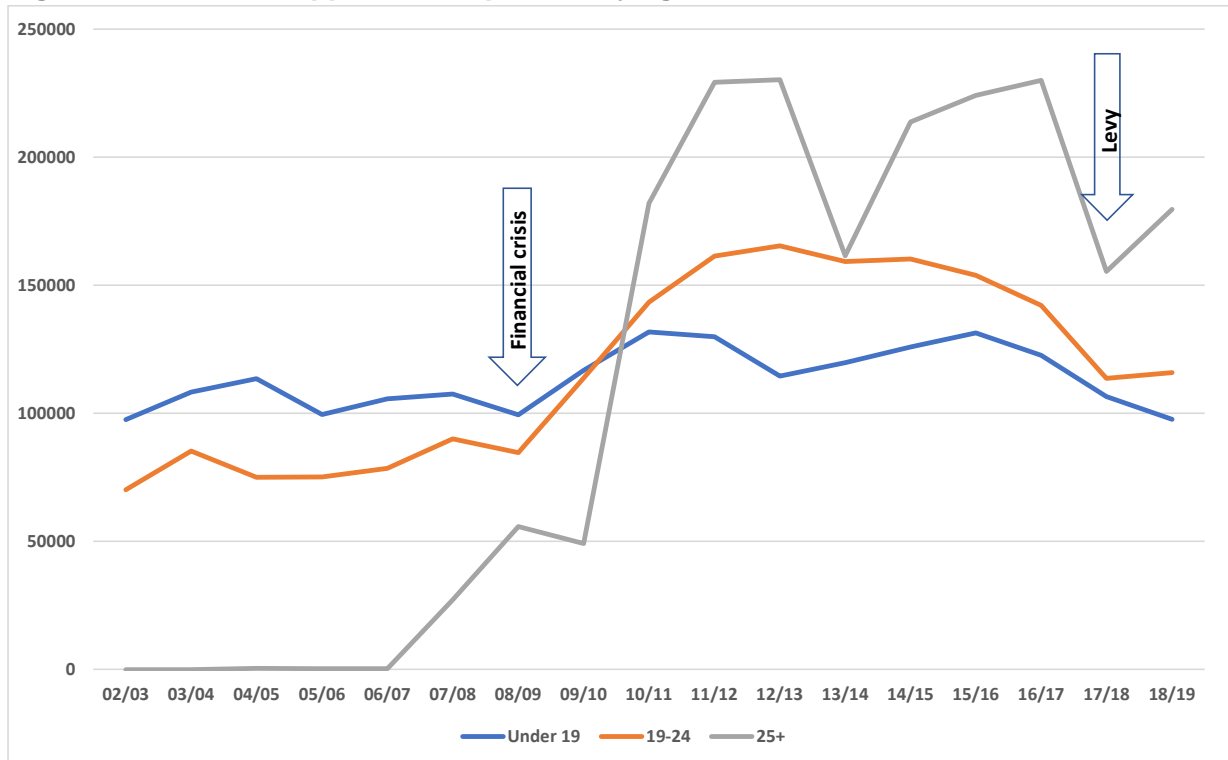
There have also been significant changes in the age profile of apprentices as Figure 5 shows. In 2002/03 most apprentices (58%) were aged under 19 years, 42% were aged 19-24 years, with no apprentices aged 25 and over.

The marked increase in the number of apprentices aged 25 years and over began after 2010, in part, driven by the switching of funding from the Train to Gain programme to apprenticeships (see Figure 5).⁷ Since 2015/16, the number of 16-18 year old apprentices has fallen by 26% and for 19-24 year olds by 19%. In 2010/11, 29% of apprentices were aged under 19 years, 31% were aged 19-24, and 40% were aged 25+. By 2018/19 the respective percentages were 25%, 29% and 46%.

The overall changes by age since the turn of the last decade hides some consistent trends within age groups. Across all of the three age groups there was a fall in the number of Intermediate apprenticeships, a modest increase on the number of Advanced apprenticeships, and an substantial increase in the number of

⁷ Ofsted (October 2015) Apprenticeships: developing skills for future prosperity.

Figure 5: Number of apprenticeship starts by age 2002/03 to 2018/19

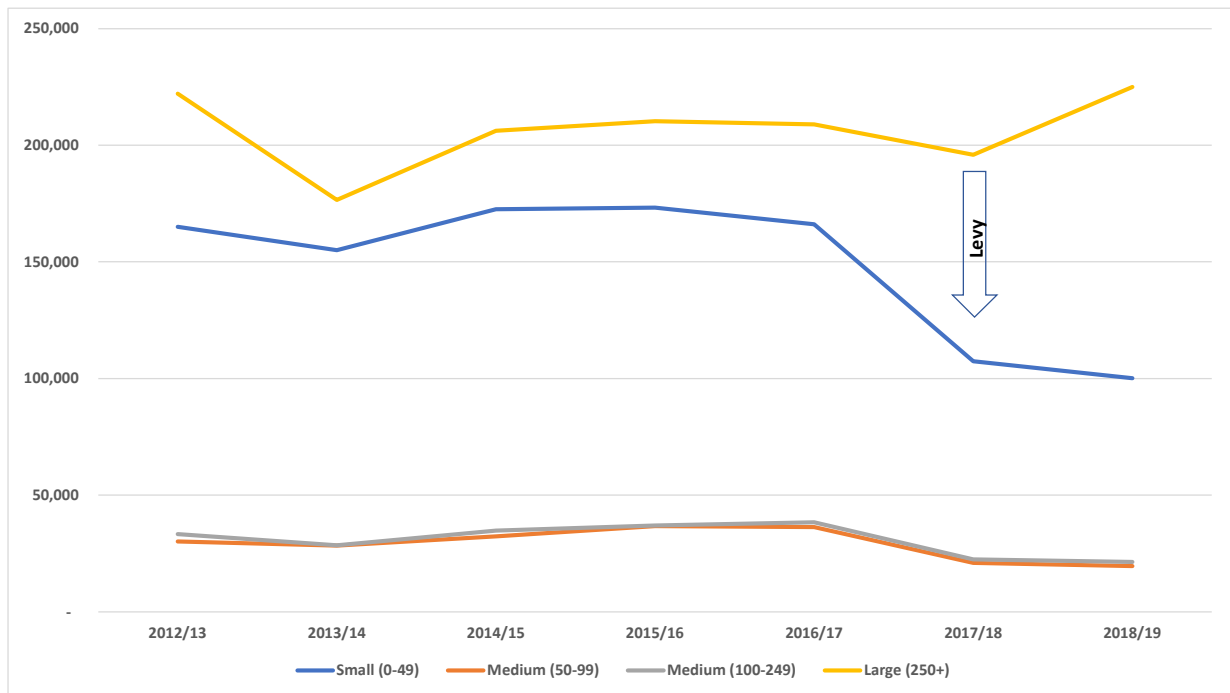


Source: DfE Apprenticeships and traineeships data various years

2.3. Trends in Apprenticeships pre- and post-levy

Figure 6 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 (i.e. just before the levy was introduced) the number of apprenticeship starts in small businesses fell substantially as did those in medium sized businesses, though to a lesser extent. Apprenticeship starts in large businesses rose dramatically after the levy's introduction. The implication of this would appear to be that the introduction of the levy has skewed apprenticeship starts in favour of larger enterprises.

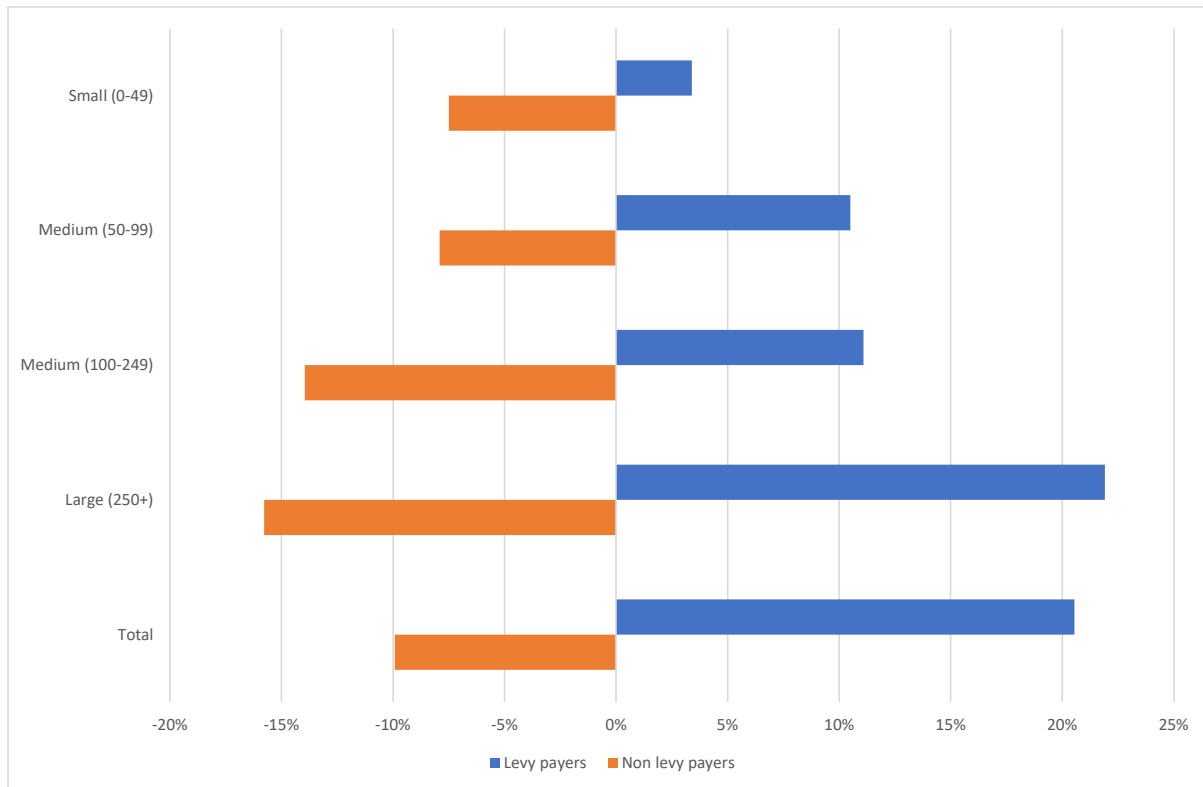
Figure 6: Number of apprenticeship starts by employer size 2012/13-2018/19



Source: DfE Apprenticeships and traineeships data various years

Figure 7 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.

Figure 7: 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

A more direct view of the levy’s impact on apprenticeship starts can be obtained from employers’ responses to the EAS in 2018/19. It reports that levy payers were more likely to take on apprentices as a consequence of the levy, but it also revealed that their use of apprentices differed from non-levy paying ones. For example, levy payers were longer standing apprenticeship employers with just over half (54%) of them having offered apprenticeships for more than five years compared with 48% for non-levy payers. Levy payers were more likely to begin to offer apprenticeships in order to train existing employees (38%) compared with non-levy payers (29%). In contrast, non-levy payers were more likely to start offering apprenticeships in order to attract new staff (34% compared with 27% of levy payers). Levy payers, it can be seen, were more likely to use Apprenticeships to train older and existing employees.

The ESS from 2019 also reveals something about the way in which the levy had an impact on employer behaviour. The ESS does not differentiate between levy and non-levy payers but a proxy based on average earnings can be used to identify those in scope of the levy. In 2019, according to the ONS the average annual salary was £30,420.⁸ This indicates that employers with around 100 or more employees will be in scope of the levy. 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 in 2019

8

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

had/offered Apprenticeships or had done so in the past three years, compared to one quarter of those with fewer than 100 employers.

Whilst smaller employers are less likely to recruit apprentices, they are important for the recruitment of younger apprentices. According to the ESS, smaller employers (particularly those employing up to 24 people) were more likely to recruit 16-18 year olds and to rely on this age group as the sole source for filling Apprenticeships. They are three times as likely as medium sized firms (employing 50-249 employees) 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). Clearly, non-levy payers are an important source of apprenticeship places for younger people.

The ESS asked apprenticeship employers whether the 2017 reforms had had an impact on apprenticeship recruitment. Table 2 reveals that the impact on the recruitment of apprentices in larger employers (100+ employees) was three times greater than in smaller organisations (<100). One might surmise that the levy had increased their propensity to take on apprentices. 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.

Table 2: 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+
The overall number of apprentices (% yes)	10%	32%
Proportion undertaken by existing employees (% yes)	19%	27%
Number of managers on apprenticeships (% yes)	11%	19%
Starts in subjects outside core business areas (% yes)	11%	20%
Increase in total number of apprentices (% saying increase)	10%	23%
Increase in proportion of existing employees (% saying increase)	8%	17%
Increase in managers on apprenticeships (% saying increase)	6%	14%
Increase in starts outside core business (% saying increase)	4%	11%

Source: Employer Skills Survey 2019: England data tables

The trajectory of apprenticeship recruitment has been towards larger firms, and this is confirmed by the ESS. It may well be that the levy and other reforms has exacerbated this trend but, potentially, at the expense of smaller employers which, in aggregate, may account for some of the tail-off in overall apprenticeship starts.

2.4. The impact of COVID-19

The main economic impact of the pandemic has been to reduce the demand for output and thereby employment. It is estimated that the UK economy contracted by around 8% during

2020 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 incentives, flexibilities and support to employers.

Analysis suggests that the pandemic has resulted in 14% fewer starts⁹, disproportionately affecting younger people more than older ones, and particular sectors (the leisure, travel and tourism sector but not health and IT).

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 in the shorter term 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.

2.5. Conclusions

The recent 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. But this system would not appear to have produced the volume of apprenticeships sought by policy makers, hence the introduction of the levy. One reading from the analysis above is that the levy – and other reforms introduced in 2017 – may have resulted in apprenticeship starts being increasingly concentrated amongst larger, levy paying employers. There is also evidence that employers are increasingly looking to take on apprentices to higher level apprenticeships which is unlikely to be wholly explained by the levy's introduction but it may have some bearing if employers obtain a higher return from engaging in such training. This gain, however, may have been at the expense of opportunities for younger people looking to make the transition from education into work given that larger employers are more predisposed to train existing employees as they look to recoup their levy payments. Opportunities for younger apprentices has also been reduced by the decrease in recruitment of smaller employers who are much more likely to recruit younger apprentices.

These issues, and others, are explored in the next chapter which reports on the in-depth interviews with employers.

⁹ This estimate is based on an analysis of the number of starts before and during the pandemic controlling for the trend in the decline of starts post-levy and pre-pandemic.

3. The impact of apprenticeship reforms: findings from the employer case studies

3.1. 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 focuses on the main aim of the research which was to explore why pre-levy apprenticeship plans differed from what occurred, the decision making processes this was based on, and whether these differed by levy/non-levy payer and low/high cost apprenticeships. It needs to be borne in mind that the interviews were conducted with a relatively small number of employers and therefore the findings need to be regarded as indicative rather than definitive.

3.2. Apprenticeships within the organisations

3.2.1. Rationale for apprenticeships

The main reasons why organisations recruited apprentices were:

- **Training new recruits. Apprenticeships** were seen as the most effective way of training new recruits. Mostly large organisations gave this response. They regularly needed to recruit large numbers of young people to replace people as the part of the natural ‘churn’ (also known as replacement demand). These organisations tended to deliver high cost apprenticeships but it also applied to organisations with low cost apprenticeships, for example, because apprenticeships increased staff retention rates.
- **Effectiveness based on experience**, was the second most mentioned reason. Some organisations had been taking on apprentices for a long period of time and it had served their purposes well either because apprenticeships were currently the ‘industry standard’ (e.g. hairdressing), others said the apprenticeship model – with on-the-job experience and off-the-job training – was an effective way of developing people.
- **Growing your own** was the main response of non-levy payers. In most cases this was because the organisation had a particular product and/or customer service approach they wanted to instil in their staff. Some also preferred this approach where they undertook workforce planning and recruited apprentices to replace experienced staff in several years time (see Box 2).
- **Corporate social responsibility (CSR)**, to provide opportunities to young or older disadvantaged people. Organisations citing this reason were varied, but in most cases had wider CSR commitments, of which apprenticeship recruitment was one element. Some organisations also want to be seen as ‘good’ employers.
- **To spend the levy**. This was rarely the primary reason, and was mostly mentioned as a reason for expanding apprenticeships. In some cases employers wanted to maximise their levy spend. For others, the levy had prompted them to rethink their workforce development strategies and apprenticeship recruitment fell out of this wider 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 (both low- and high cost apprenticeship employers) found it difficult to recruit certain types of staff and used apprenticeships to recruit and train primarily younger people (see Box 1). 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.
- **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 combinations of these reasons.

3.3. Initial responses and impacts of the levy and other reforms

3.3.1. Non-levy payers

Non-levy payer's response varied depending on whether they delivered high- or low cost apprenticeships. For **non-levy payers** delivering **high cost apprenticeships** the main response was 'What levy?' They would have to pay an extra 10%, but were longstanding apprenticeship providers and such relatively small amounts did not impact on their decision:

"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)¹⁰

Non-levy payer organisations with **low cost apprentices** were more aware of the introduction of the levy because the impact of paying an additional 10% of the training costs:

"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)

For **non-levy payers**, the other reforms did not have a significant effect, unless they provided apprenticeship training for other businesses. The impact was muted as well. For example, the 20% off-the-job training requirement was already present in many traditional apprenticeships and so is costed into the cost-benefit calculation. For some employers, there was an impact where it required backfilling¹¹ thus adding further costs.

The EPA was the biggest concern amongst **non-levy payers** (both high- and low cost) because: *"The EPA makes apprentices panic because it's a test and they're not academic".* (Non-levy paying, low cost employer NLP_LC1).

Most non-levy payers recruited as before. But around one in three (both high- and low cost) did reduce their apprenticeship recruitment because the various reforms all came at once:

¹⁰ In 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).

¹¹ 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 or customer service requirements on staffing levels (e.g. in the care or hospitality sectors).

“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 in response to recruitment difficulties and one because the relevance of the new standard.

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, a niche manufacturer, regularly recruits small numbers of apprentices because they find it difficult to recruit people with the requisite skills, as well as wanting to invest in young people: *“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: *“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.

3.3.2. Levy payers

A number of **levy payers** (mostly **high** but some **low cost**) were involved in apprenticeship reforms through the standards Trailblazer groups¹² and so were aware of the 2017 reforms.

Most **levy payers**, both **high- and low cost**, were very positive about the reforms because it gave them a dedicated funding pot for apprenticeships:

¹² Trailblazer groups are responsible for developing apprenticeship standards and are recognised by the IfATE. There has been no formal analysis of the composition of Trailblazer groups, however, some 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).

“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... 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 in order to use it effectively (see Box 2). A number embarked on 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”. (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 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)

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-time. 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. Primarily, apprenticeships are part of its long-term workforce strategy to address an 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. The organisation was heavily involved in the Trailblazers to ensure that the standards were appropriate to their business.

The company’s internal review evaluated their participation in apprenticeships, 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- and medium term skills requirements but longer term management and leadership needs 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, whilst the expansion of apprenticeships per se was driven by workforce planning 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 more female technical staff. The organisation has also 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 been relatively smooth. The main challenges, and frustrations, have been in the external elements and processes of apprenticeships e.g. in designing the standards 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.”

In contrast, another **high cost levy paying** employer had a central HR department but undertook no central analysis or planning of the implications of the introduction of the levy.

For most **levy payers** it was very much business as usual:

“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”. (Levy paying, high cost employer LP_HC2)

Levy payers, as larger employers, tended to have centralised functions to manage apprenticeships. In some cases this shielded departments from the rigmarole of the levy. But in other cases it caused problems because it slowed down information flows.

For a small number of **levy payers**, the introduction of the levy did cause them problems, especially where they did not have a specialised HR function:

“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)

Post levy, most **levy payers** (both **high- and low cost**) increased their numbers, but this was based on a ‘spend it or lose it’ approach, for example, converting internal programmes into apprenticeships or prioritising apprenticeships when making recruitment decisions:

“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)

The planned response from **all levy paying** organisations in the study was to expand their apprenticeship programmes even where there were complications. 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. Instead they trained existing staff instead.

As far as the other reforms were concerned, the reaction from **levy payers** was mixed. Most welcomed apprenticeship standards. Some **levy payers** had been involved in the Trailblazers, primarily to ensure that they were appropriate to their organisation. More generally respondents said that standards were more relevant to their business than frameworks. **Levy payers** particularly welcomed the introduction of degree apprenticeships. Especially those with **high cost** apprenticeships as it helped meet some of the higher level skills needs. The main area of dissatisfaction was the time it took standards to be developed:

“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)

The 20% off-the-job training element was already present in traditional apprenticeships (such as construction and engineering) on a day or block release basis so did not cause any concern. Some employers in less traditional standards were confused as to what could be included in

'off-the-job' training.¹³ As with non-levy payers, the main concern was backfilling where staff ratios are a statutory (e.g. in childcare) or a practical (e.g. in hospitality) requirement.

The upshot was that most **levy payers** in the study expanded their apprenticeship recruitment. For most (both **high- and low cost**) there were immediate increases in the number, level and/or standards of apprenticeships or combinations of the three. This was usually as a direct effect of the levy. For those levy payers who had strategically assessed, costed and planned the impact of the levy there were increases both in the number of apprentices in standards they already recruited to (relating to their core business functions) as well as also in new standards (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 new standards were concerned, it was more to do with the realisation that post-levy they had a pot of money that needed to be used 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)

In another example, using the digital account made the employer realise which other occupations apprenticeships were available, and that they could use the levy 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)

Large **levy paying** organisations without such a central co-ordinating function did not have the same apprenticeship intelligence, information and promotion to plan their apprenticeship recruitment. Their responses were business as usual i.e. recruiting similar numbers in the same standards as before.

Despite the increase in apprentice numbers, all **levy payers** said they have an unspent levy pot. Whilst employers want to maximise their levy spend (and have identified skills and recruitment needs to spend it on) this remains the case to this day. As a result, some have/are exploring transferring some of their levy pot to 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.

3.4. Apprenticeship recruitment prior to COVID-19

The previous section found that for most employers in the study, both **levy payers** and **non-levy payers**, their apprenticeship recruitment behaviour was business as usual. Most **high**

¹³ 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.

cost non-levy payers were unaware of the levy and other reforms. However, the introduction of the 10% contribution did concern **non-levy payers** with **low cost** apprenticeships. For **levy payers**, there was an added incentive to maximise their levy spend and this increased their recruitment activity. For both **levy payers** and **non-levy payers** in some **low cost** standards (such as care, hospitality and retail), the need to backfill staff whilst they were training added considerable additional costs. This section shows that most employer behaviour did not change once the new reforms had bedded in.

3.4.1. 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 **levy paying** employers with **high cost** apprenticeships there was a desire to spend the levy, but this was also driven by an appreciation of the benefits of apprenticeships and wanting to extend those benefits to other groups of staff. One large employer had run apprenticeships in its core occupation and had seen how it had 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:

“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 an opportunity for development within the team. If we get requests for upskilling of existing employees we also look whether there is an apprenticeship opportunity.” (Levy paying, high cost employer LP_HC9)

For other **high cost** apprenticeship employers this expansion and extension of apprenticeships has been a more gradual process. For one organisation the realisation that their workforce is relatively old is the main driver. They would like to ‘grow their own’, in part because of the retention and progression benefits of apprenticeships:

“We have always been quite pro-apprenticeship anyway, but more people were keen on recruiting apprentices because it is funded through the levy... 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 has meant a lack of strategic direction and its levy pot is not being fully utilised:

“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 are 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.” (Levy paying, high cost employer LP_HC4)

Low cost apprenticeship levy paying employers

There was also a desire on the part of some **levy paying** employers with **low cost** apprenticeships to significantly expand apprenticeship numbers because of the benefits of apprenticeships, especially in meeting core social values. However, they were severely hampered because of the costs of backfilling staff when apprentices were away training. This led to one employer abandoning apprenticeships and another to seriously curtail numbers.

One of these employers had centrally and strategically planned the introduction of the levy. As a result, apprenticeship numbers increased in the immediate aftermath of the levy. Ultimately, levels of recruitment depended on the staffing needs of individual business units. In one department, the company wanted to expand the number and level of customer service apprenticeships but were unable to do so because backfilling costs were too great and a cap on numbers was imposed. This contrasted with the experience in another business unit which did not need to backfill apprentices, and where numbers continued to expand.

Another employer (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, to train new recruits but also to create progression routes up to management levels. However, a combination of backfilling costs and the demands of English and maths requirements, led the organisation to abandon apprenticeships for customer service staff. Instead, they have developed internal training programmes and now 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 saw the levy as an opportunity to develop an inclusive and progressive apprenticeship programme:

“We didn’t have any apprentices before 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... We employ people from underprivileged areas [of our city] and it was an objective to give them training and a qualification.”

Apprenticeships were seen as a means of recruiting school leavers and progressing them to higher levels:

“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?

The company recruited 10 Level 2 apprentices but then faced problems:

“After the first year we sat down and looked at the impact of the apprentices on the store costs in a lot of detail. The 20% off-the-job training was a big cost. Then there was in-store training one day a week. Then doing assignments and research was additional to that.”

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

“They had to pass maths and English. This was self taught on-line [but] some kids didn’t have computers at home. We had to provide additional basic skills support in addition to the training provider’s basic skills tutors.”

What were the eventual outcomes?

Few apprentices completed their programme and a number left the business because they found the apprenticeship too hard, especially maths and English:

“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 had 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... We have now stopped taking on people below Level 4, and have developed our own in-house training for them instead. ... We still pay the levy. We still want to grow our own but not through an apprenticeship.”

The remaining employers said their apprentice recruitment depends on business demand, not the levy. If the business expands and they need to take on new staff, they will take on apprentices, if not they won't:

“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)

The main reason why there was so little change in recruitment for so many **levy payers (low- and high cost)** was because the organisation always needs apprentices, either as a result of business HR planning or to meet business demands. Apprenticeships had served them well, there was an implicit understanding that apprenticeships were good for their business. Allied to this was monitoring how much of their levy budget they were spending. Most employers were not maximising their levy spend, leading many of them to expand their apprenticeship programmes. This was not based on a cost-benefit analysis but rather an understanding that they had workforce recruitment, skills, retention and progression needs, and apprenticeships could meet some of these needs and the under spent levy pot could fund them:

“We have always been an apprentice provider. There is a demand for recruits which we can fill though 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.” (Levy paying, high cost employer LP_HC1)

Those employers who did undertake a cost-benefit calculation said that they focused more on the cost side because the monetary value of costs 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)

3.4.2. Apprenticeship recruitment prior to COVID-19: non-levy payers

Most **non-levy payers** (both **high- and low cost**) in the study said there was no change in their apprenticeship recruitment (see Box 4). The recruitment numbers, levels and standards of apprentices did not change much from pre-levy days. For some 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 business as usual. Like levy payers, they always need apprentices. In some sectors - engineering, construction and hair and beauty - apprenticeships were the default programmes.

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 employed apprentices for several years, recruiting apprentices 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.”

Intentions prior to the implementation of the levy

The organisation was 'on the cusp' of paying the levy and were aware of its introduction. However, it was not influential because of their past experience of apprenticeships.

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. The respondents said that the number of 16 year old school leavers had declined and those that left school at 16 were not up to an apprenticeship. Any school leavers they recruit at this age are placed on an eight week Traineeship before progressing on to the standard. They also value those who have experience of a salon through Saturday work. Young people recruited on to apprenticeships tend to be aged 18 but it is more difficult to recruit young people on to apprenticeships at this age because the alternatives, especially as higher education, are more enticing.

The company has stopped training some apprenticeships because of the change to 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 day release has been the norm) it has been an issue for other apprenticeships they have run, such as customer service and management.

3.5. Impact on Higher level apprenticeships

Around one in six apprentices in the sample were on Higher level apprenticeships. No employer employed Higher level apprentices only. Higher level apprenticeships were predominantly used by **levy payers**, and **levy payers** with **high cost** apprenticeships. **Levy payers** with **low cost** apprentices, tended to recruit Higher level apprenticeships on an ad hoc rather than an ongoing basis, for example, if existing staff requested or if there was a specific business need. The main function of Higher level apprenticeships was mainly to:

- **Replace or complement graduate recruitment.** Higher level apprenticeships had added advantages, for example, increasing workplace diversity, and as cost effective way of progressing existing staff.
- **Replace non-apprenticeship provision.** For example, in order to better utilise their levy spend or because higher level apprenticeships are a more useful workforce development programme:

“We had an internal programme at this level but it...was difficult to recruit people on to and there were problems with retention. 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.” (Levy paying, high cost employer LP_HC2)

- **To meet replacement demand.** Either because the organisation found it difficult to recruit staff to higher level occupations or they preferred to ‘grow their own’.

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, diversity and inclusion was a key element in this. These employers believed that Higher level apprenticeships recruits were more diverse than graduates, and they could also apply their diversity and inclusion processes to selection.

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.

3.6. Impact of COVID-19

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). Of those recruiting in 2020 most were planning to carry on with their plans, mainly 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. 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.

Medium term impacts

Overall, employers were more optimistic about recruitment levels returning to normal in 12-18 months. The main drivers remained spending the levy, meeting business needs, addressing recruitment difficulties, and CSR especially providing opportunities for young people.

Only three respondents said that they were planning to reduce apprenticeship numbers in the next 12-18 months. This was mostly due to delays in the training of current apprentices, leading to delays in future recruitment.

Over the longer term (five years+) 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.

3.7. Main findings

It needs to be borne in mind that the interviews were conducted with a relatively small number of employers and therefore the findings need to be regarded as indicative rather than definitive.

The main reasons why organisations in the study recruited apprentices were: to train new recruits; the effectiveness of the apprenticeship programme (based on experience); the desire to 'grow your own' staff; CSR; and spending the levy.

For most **non-levy payers** in the study, the 2017 reforms passed them by, although some were concerned by the additional 10% they would pay. As a result recruitment patterns did not change.

Most **levy payers** in the study were very positive about the reforms because it gave them a dedicated funding pot for apprenticeships. Some put in considerable resources to plan for the levy's introduction. As with **non-levy payers** in the study, it was very much business as usual, although for different reasons.

In some **low cost** standards (such as care, hospitality and retail), the need to backfill staff whilst apprentices were training added considerable costs.

Once the reforms had bedded in, **levy payers** with **high cost** apprenticeships tended to expand the number, level and standards of apprenticeships in order to spend the levy. This was also a driver for **levy payers** with **low cost** apprenticeships, but some were severely hampered by backfilling costs.

The main reason why there was so little change for **levy- and non-levy payers** was because employers need apprentices to meet their workforce needs.

Higher level apprenticeships were predominantly used by **levy payers**, and **levy payers** with **high cost** apprenticeships. They were used primarily to replace or complement graduate and other existing higher level training.

Most apprenticeship recruitment was not affected by the pandemic because it had already happened. There are likely to be knock-on effects in the shorter term 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 and beyond.

4. 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 Authority¹⁴).

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 an increasing number of people working 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 this seems 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 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.

¹⁴ <https://www.wmca.org.uk/what-we-do/productivity-skills/the-apprenticeship-levy-fund/>

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