Policy **Brief**

Apprenticeship training in England – a cost-effective model for firms?

What our research means for policy in England

Current Policy

In 2016, the government published its Post 16 Skills Plan, based largely on the recommendations of Lord Sainsbury's review of technical education. The plan set out aims for a newly reformed post-16 system, where technical qualifications of unclear quality and market value would be removed and replaced instead with clearer, higher quality, progression routes for students and a central role for employers in designing and supporting this new system. At the core of the Post 16 Skills Plan is the introduction of 15 new technical qualifications, 11 of which will be delivered in the form of 'T-levels' and 4 in the form of apprenticeships, at level 3. Students should be able to continue from these qualifications to higher levels of training in work-based settings (e.g. higher and degree apprenticeships) or classroom-based provision (in Institutes of Technology, National Colleges, universities, etc).

Apprenticeships are the government's flagship skills policy and are a crucial component in plans to improve technical skills among young people and to smooth transition into the labour market. To that end, the government has made two major changes to the old apprenticeship system.

First, previous apprenticeship frameworks will be replaced by new apprenticeship standards, designed by employers under the oversight of the Institute for Apprenticeships. These new standards are intended to be connected better to the needs of the labour market, offering a more direct route into employment upon completion, but also allowing for progression to higher levels of training or education.

Second, the funding arrangements for apprenticeships is changing. Instead of the government transferring money to providers per person trained, firms with a payroll over £3 million started paying an apprenticeship levy from April 2017, which is transferred to their digital accounts to pay training providers directly, together with a 10 per cent top-up from government. The government is expected to raise £2.6bn from levy-paying employers in 2017/18. Funding for non-levy payers (mostly Small and Medium Enterprises – SMEs) is also available, and they will only be required to pay for 10 per cent of the total cost of provision.[1] However, a few issues have arisen since the changes were introduced. The number of companies offering apprenticeship places and the number of students filling those places have both fallen. In the first quarter of 2017/18, the number of apprenticeship

1 House of Commons Library, 2017 'Apprenticeship policy in England: 2017'

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starts fell by 30 per cent, from 164,200 to 114,400 compared to the previous year. In addition, only two thirds of expected levy-paying firms have already registered an Apprenticeship Service Account that companies need to set up to use their levy money.[2]

The report **Apprenticeship training in England – a cost-effective model for firms**? is therefore timely and can help better inform policy in England so that companies, apprentices, and the taxpayer are better placed to secure value for money.

Recommendations – what does the report mean for English policy?

To address the challenges around apprenticeships and ensure that policymaking is evidence-based, the JPMorgan Chase Foundation, Bertelsmann Stiftung and the Education Policy Institute partnered with the global apprenticeship expert and economist Prof Dr Stefan C Wolter to explore alternative delivery models for apprenticeships in England. The report **Apprenticeship training in England – a cost-effective model for firms?** analyses what the benefit for firms would be if a Swiss-style apprenticeship model was adopted. The Swiss model is recognised for smoothing the transition from school into the labour market, and helps the country outperform most EU countries against a number of skills-related indicators.3 Variations of the same model were tested to check under which conditions firms would be able to obtain net benefits from training apprentices.

Although the current system in England differs from the models proposed in some regards, this research has important implications for the development of apprenticeship policy in England (see report for more detail):

1. Big companies may be more likely to experience net benefits from hiring apprentices than SMEs, due to economies of scale and a different salary structure. It is therefore crucial that small businesses are properly supported, especially in sectors or regions dominated by SMEs.

2. Apprenticeships of longer duration are likely to bring higher returns for both employers and apprentices, due to productivity increases over the course of training. In England, where apprenticeships are not required to be longer than 12 months, short apprenticeships dominate. Both companies and young people could therefore benefit from longer apprenticeships.

3. The report suggests that, when it comes to apprenticeships, one size won't fit all, as benefits vary across sectors and company sizes and depend on parameters such as the apprentice's salary. England pays higher minimum wages to apprentices than other countries, so flexibility in other parameters, such as in how and on what they can spend the levy, might be advisable.[4]

4. The returns to apprentices are higher if they start their apprenticeship at a younger age. This is a concern for England, where 60 per cent of new apprentices are aged 19 or older (2017/18).[5] There is a case for the government to expand apprenticeships among 16 to 18 year-olds, in line with other advanced economies.[6]

5. The report warns that for apprenticeships to be profitable for employers, companies need to retain a substantial proportion of apprentices after they complete the program. This would allow companies to save in hiring costs and would provide them with professionals who are already familiar with the company's environment. To this end, it is crucial that dropout is tackled, as apprenticeship completion rate is only 67 per cent.[7]

6. In sectors dominated by low-skilled employment, the returns of apprenticeships for students and employers may be low. If training is of high quality, apprenticeships could help raise productivity in these sectors, which could also drive increases in wage levels.

7. Whenever companies face net costs from hiring apprentices, the employer should assess whether an apprenticeship could be regarded as an investment in future middle management positions, meaning that benefits can be reaped later in time and short-run costs are acceptable.

Imprint

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2 Department for Education, 2018, 'Apprenticeships and traineeships release: January 2018'

3 CEDEFOP, 2017, 'On the way to 2020: data for vocational and training policies'

4 Education Policy Institute, 2017, 'Apprenticeships for northern growth'

5 Department for Education, 2018, 'Apprenticeships and traineeships release: January 2018'

6 Education Policy Institute, 2018, 'Educating for our economic future'

7 Department for Education, 2017, 'Further Education and Skills in England November 2017'