
NET COSTS OF MODERN APPRENTICESHIP TRAINING TO EMPLOYERS

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Introduction

This study provides a detailed assessment of the gross and net costs to employers of providing training to NVQ Levels 2 and 3 through Foundation Modern Apprenticeships (FMA) and Advanced Modern Apprenticeships (AMA) in selected occupations, frameworks, and industries. The study looked at:

- the contribution of government funding through the Learning and Skills Council (LSC) to the cost of training Modern Apprenticeships;
- The effect that funding has on the volumes of young people being trained; and,
- The structure of training being offered.

The purpose of the study was to indicate the types of cost (and benefit) employers encounter in delivering Modern Apprenticeships and the variation in such costs. The data presented are indicative, based on a small number of detailed case studies in five industries; engineering, construction, retailing, business administration, and hospitality.

Key findings

- AMAs in engineering and construction have structured training programmes leading to NVQ level 3 and beyond. In contrast, FMAs and AMAs in other industries rely much more upon on-the-job training with few opportunities for off-the-job training.
- AMAs in engineering and construction were of the longest duration: three to three and a half years. Consequently the gross costs to the employer were often high at around £46,000 and £31,000 respectively. Beyond a certain point, apprentices can be highly productive and contribute substantially to organisational performance. Consequently, the net costs were substantially lower at £16,000 and £10,000 respectively.
- FMA training in hospitality, retailing, and business administration had a dependence upon on-the-job training. The semi-skilled nature of the jobs apprentices were being trained to fill were such that apprentices had a high productive contribution almost from the commencement of their apprenticeship.
- Training providers often absorbed the costs of MA training and received all available funding. In this way, MA training was seen by some employers as relatively inexpensive with the main costs accruing to the employer being those related to supervision of apprentices.
- Some employers operated in the capacity of training providers even though this was not their primary business activity. Apprentices were taken-on as 'non-employed trainees' of the organisation and paid an allowance, in return the organisation obtained funding from their local LSC for the delivery of training. The company then had the benefit of being able to select the best of the apprentices for permanent employment. The cost of providing MAs through this route was relatively small.
- Drop-out was recorded as a problem across several industries, especially in retailing and hospitality.
- Employers reported that they valued Modern Apprenticeships because they provided a structure to their training activities and recognised the merits of training their own staff for the future development of their businesses. That said, the quality and structure of training provided in relation to the engineering and construction AMAs was incomparable to the less formal, learning by doing oriented training provided in the other MAs studied in the research.

Aim of the study

Since 1994, the Institute for Employment Research (IER) at the University of Warwick has conducted a series of studies to estimate the costs borne by employers in training young people to a recognised NVQ standard. The first two reports in the series were concerned with training to NVQ levels 3 and 2 (or their equivalents) respectively. Modern Apprenticeships had yet to come into being at the time of the first study and were in their formative stages by the time of the second. As such, these studies were concerned with all possible routes taken by employers to enable their staff to acquire an NVQ. This, the third study, is concerned only with employer provided training under the Modern Apprenticeship (MA) programme whether this leads to an NVQ level 2 (Foundation Modern Apprenticeship, FMA) or NVQ level 3 (Advanced Modern Apprenticeship, AMA).

The study provides a detailed assessment of the gross and net costs to employers of providing training to NVQ Levels 2 and 3 through FMAs and AMAs in selected occupations, frameworks, and industries.

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- the contribution of government funding through the Learning and Skills Council (LSC) to the cost of training Modern Apprenticeships;
- the effect that funding has on the volumes of young people being trained;
- the structure of training being offered.

Choice of frameworks

Overall, a detailed breakdown of costs is provided for MA frameworks in:

- engineering;
- construction;
- retailing;
- business administration; and
- hospitality.

The data presented are indicative, based on a small number of detailed case studies in each industry. The purpose of the study is to indicate the types of cost (and benefit) employers encounter in delivering MAs and the variation in such costs. The industries were selected because: (a) each has a history of significant engagement in training, and (b) each was covered in the previous net costs studies.

Using a cost-benefit framework, the net costs to the employer of engaging in MA training was estimated.

Gross costs of training

Table A gives a summary of the gross costs that accrued to the employer in providing either FMAs or AMAs. With respect to AMAs, engineering and construction incurred the highest costs, primarily due to the longer duration of apprenticeship training in these industries. It should also be noted that training under these two frameworks tended to be much more structured than other AMAs, with substantial periods of time when apprentices would be engaged in off-the-job training.

Table A - Summary of gross costs (per apprentice)

Industry	AMA		FMA	
	Duration of apprenticeship (years)	Gross costs (£)	Duration of apprenticeship (years)	Gross costs (£)
Engineering	3.5	46,150		
Construction	3	30,992		
Retail	2	24,240	1	8,172
Business Administration	2	23,712	1*	8,542
			2**	17,688
Hospitality	2	22,976	1.5	16,155

Source: IER Net Costs studies

Notes: *assumes a one-year apprenticeship in business administration ** assumes a two-year apprenticeship in business administration

With respect to the FMA, employers in business administration, where the duration of training was around two years, and in hospitality incurred the highest costs. Again the higher costs were incurred because of the duration of training.

Net Costs to employers

Table B provides a summary of the financial costs and benefits of MA training as revealed by the case

Table B - Summary of training costs (per apprentice)

£s

Industry	AMA		FMA	
	Excluding funding	MA Including MA funding	Excluding MA funding	Including MA funding
Engineering	16,265	14,715	-	-
Construction	10,253	3,185	-	-
Retail	-	-	(318)	(231)
Business Administration	2,729	2,729	3,562	(285)
Hospitality			2,560	2,560

Source: IER Net Costs studies. Figures in parentheses are net benefits

Differences between apprenticeships

The nature of AMAs and FMAs was substantially different in the cases selected. The FMAs reported in engineering were essentially the first 18 months to two years of the AMA and training over this period was highly structured with a large off-the-job, off-the-site component. In this sense the FMA was a preparation for continuance to the AMA standard; apprentices were recruited with the expectation that they would complete an AMA. In the other industries, the degree of structure and off-the-job training given under a FMA framework bore no reasonable comparison with that of the AMAs in either construction and engineering. This is the explanation for the relatively low costs borne by employers. Typically the FMAs were characterised by low wage employment, high productive contribution of the apprentice from the commencement of employment reflecting the low skill nature of the work to be undertaken, and short duration training.

The value of apprenticeship

AMAs in engineering and construction were highly valued by employers. They provided a rigorous

training. It is apparent that there were differences in net costs both between industries and between AMAs and FMAs. In engineering and construction the gross costs of apprenticeship training are relatively high and only partially set off by MA funding. In contrast, in retail and business administration one interpretation of the data presented in Table B is that employers break even with respect to the costs and benefits.

training in recognised trades. Employers recognised that the level of investment they made in apprentices was high. Many of the employers that participated in the study reported that once apprentices had qualified they had a good record of keeping them for a long time afterwards.

The level of investment made in business administration and retailing was much lower and hence the risks attached to drop-out or apprentices being enticed away by other employers at the end of the apprenticeship was much less. Even though the investment was lower employers nevertheless recognised the value of apprenticeship training. Employers providing FMAs pointed to examples of additionality, such as improved customer care standards. But there was also a sense, reflected in the high productive contributions from the commencement of employment, that FMAs in retailing and to a lesser extent business administration were essentially certifying skills the apprentice already possessed.

Additional information

Copies of the full report (RR418) - priced £4.95 - are available by writing to DfES Publications, PO Box 5050, Sherwood Park, Annesley, Nottingham NG15 0DJ.

Cheques should be made payable to "DfES Priced Publications".

Copies of this Research Brief (RB418) are available free of charge from the above address (tel: 0845 60 222 60). Research Briefs and Research Reports can also be accessed at <http://www.dfes.gov.uk/research/>

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