



The benefits of apprenticeships to the hospitality sector

A report for Greene King and Lifetime Training

August 2019

Cebr

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London, August 2019

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Forewords

Introduction from Nick Mackenzie

CEO of Greene King

One of the biggest things that has struck me about Greene King since joining earlier this year is our commitment to our people.

From our brewers in Bury St Edmunds to the front of house staff in our pubs across the country, we want to see all of our staff thrive, particularly the thousands of young people we employ.

An important part of this is making sure that we can create an environment which supports every individual as they seek to progress their career. And apprenticeships are a central feature of this.

As this report clearly shows, apprenticeships are vital to the economic success of the country, and those provided by businesses such as ours are particularly important.

At Greene King we've already recognised this for our own business, so as well as being the UK's leading brewer and pub company, we are also one of the largest hospitality sector providers of apprenticeships.

We have supported over 11,000 team members through our award-winning apprenticeship programme, which has been running since 2011.

The report also makes clear the economic value of more apprentices. And here Greene King stands ready to play its role. Earlier this year we launched a report – 'Stepping Up' - which committed to the recruitment of 8,000 new apprentices by 2022 to make sure this positive contribution can continue.

We are already well on the way to reaching this milestone. Indeed we would like to go further. But we cannot do it alone. We need a supportive policy environment to ensure that hospitality businesses can continue to deliver high quality apprenticeships.

Recent legislative changes have been encouraging, and we welcome the Government's decision to decrease the co-investment rate for companies who have used their allocated levy funds.

This is a good start. But we think there's more that government can do.

Firstly, we want to see greater support from government in promoting hospitality as a profession within national careers guidance, which will help to ensure the sector has access to the people and skills needed to grow.

And secondly, we believe that further changes are needed to the way that Apprenticeship Levy funds are distributed to businesses like Greene King who want to go even further in hiring more young people and supporting them through apprenticeship programmes.

Making these changes will allow hospitality businesses to continue to support learners at all stages of their careers, to the wider benefit of UK's economy. I hope you find this report interesting and thought-



provoking. Further information about Greene King's apprenticeship programme can be found on our website.

Introduction from Alex Khan

CEO of Lifetime Training

At Lifetime Training, our founding principle was to support individuals and businesses to perform to the best of their abilities through the delivery of outstanding training programmes.

Today this principle remains core to our business, and we are proud to have developed the skills and careers of thousands of individuals across a wide range of business sectors including the hospitality industry.

We are one of the UK's largest providers of hospitality training, offering a large range of hospitality and catering apprenticeships, and have enjoyed an incredibly strong partnership with Greene King for five years. I look forward to continuing this partnership as Greene King works to provide 8,000 new apprenticeships by 2022.

This report shines an important light on the contribution of hospitality apprenticeships to the UK economy. I hope that it will not only encourage policy-makers to create a supportive environment for apprenticeship providers and those studying for qualifications, but also inspire the next generation of apprentices to consider a career in hospitality.



Introduction from Rt Hon Robert Halfon MP

Chair of the Education Select Committee

Our work at the House of Commons Education Select Committee centres around two key areas: tackling social injustice and boosting levels of productivity. Apprenticeships play a vital role in helping to achieve both of these goals. They allow anyone, no matter what their background, the opportunity to climb the educational ladder of opportunity to gain jobs, security and prosperity.



Apprenticeships provide people with the chance to gain skills that they might not have otherwise had the opportunity to attain. By offering flexible learning, without the debt that comes with a three or four-year university degree, they are able to help so many individuals find alternative routes into the world of work, particularly those from disadvantaged backgrounds.

As this report shows, the benefit of apprenticeships extends beyond individuals and touches every region in the UK, providing an economic stimulus and helping tackle the skills shortage we are currently facing.

It is therefore crucial that the apprenticeship system continues to receive government and business support so that more and more people can enter and excel in careers in a wide range of industries, including hospitality. This will help the UK to improve productivity and deliver numerous benefits to our economy and our country as a whole.

I congratulate Greene King for continuing to raise the profile of apprenticeships, following their commitment to hire 20,000 apprentices by 2022. I want to encourage other companies to follow the hospitality sector's example and put apprentices and the value of lifelong learning at the core of what they do. This is vital for the health of our economy and to allow people from all backgrounds to reach their full potential.

Executive Summary

Trends in apprenticeship starts

- Apprenticeship starts held relatively steady in the 2014/15 to 2016/17 period at around 500,000 per year, before a sharp drop in 2017/18 to 376,000. The decline was largely attributed to the introduction of the apprenticeship levy in May 2017.
- Comparing the number of apprenticeship starts in the year to May 2019 with the previous 12 month period reveals a 4% increase.
- Apprenticeships in hospitality fall within the larger subject sector area of 'retail and commercial enterprises'. Yorkshire and the Humber has the highest share of apprenticeship starts in this subject sector at 16%, followed by the South West with 15% and London with 14%.

Benefits of apprentices while in training

- Many employers will see economic benefits from hiring apprentices even when they are not yet fully qualified as they are able to actively contribute to the business, producing output that outstrips their wage and training costs.
- The estimated net annual benefit of apprentices, to the businesses in the hospitality and catering industry that employ them during their training period, is £2,380 across England, on average. Assuming the firm and apprentice meet the requirement for additional government subsidies the net benefit is comprised of:
 - the apprentice's annual productive output of £20,500 plus
 - the annual apprenticeship subsidy of £780 less
 - the apprentice's wage costs (including national insurance) of £11,800 less
 - the total training costs (direct and indirect) of £7,100

The longer-term benefits of apprentices

- The average wage premium for a Level 3 apprenticeship stands at approximately 9% compared to an equally qualified person who has not completed an apprenticeship.
- The higher the apprenticeship level achieved, the greater the returns with respect to wage. Apprentices who achieved their Level 3 qualification at age 18 or younger earn 23% more per hour than those who hold a Level 2 qualification.
- Long-term employer benefits are realised through increased output. The rise in productivity of hospitality apprentices led to gains of over £40 million for the sector in 2018.
- The successful implementation of apprenticeship programmes also leads to a significant return for the taxpayer in the long-term. For every £1 of government investment in apprenticeships at Level 2 and Level 3, the government earns between £26 and £28. These benefits to the government are realised through higher tax revenues, not only from apprentices' wage premiums, but also from increased business profits as firms reduce costs and increase productivity.
- Given the average apprentice is paid £170 per week, across the 376,000 individuals who started apprenticeships in 2017/2018, over £3.3 billion worth of income was earned.

1 Introduction

Apprenticeships are an integral part of the UK's educational system. They are an attractive option for many who search for paid employment while working towards additional qualifications and skillsets, making them an important alternative to university education.

This is especially true for the hospitality and catering sector. While it is true that a significant share of entry-level jobs in the industry can be taken up with relatively little previous experience, the demand for higher qualification and formal training is increasing fast as staff rise through the ranks and are required to take on management responsibilities. Apprenticeships can play an important role in training staff on the job while also giving them the necessary skills to succeed in their further career progression within the sector.

Over the years, the UK government has initiated numerous reforms to the apprenticeship system and changed the way in which training is funded. In 2010 and 2011, additional funds pledged to the apprenticeship programme helped to nearly double the number of apprenticeship starts from 280,000 in 2009/10 to 521,000 in 2011/12. However, the introduction of the apprenticeship levy in 2017 led to significant uncertainty among businesses and is blamed for a sharp decline in apprenticeship starts in 2017/18.

Government, training bodies and businesses should work together to address the outstanding issues with the levy in order to unlock the benefits of apprenticeships for coming cohorts. This report shows that apprenticeships benefit not only the apprentices themselves but also businesses and the wider UK economy. Given the various short and long term benefits illustrated in this report, it is clear that apprenticeships play an important role in equipping the workforce with the required skills for the future both in the hospitality sector and more generally.

2 Recent trends in apprenticeship starts

To put the main analysis of this report into context, this section presents the latest figures on apprenticeship starts by industry and region. The section also clarifies some key concepts and definitions.

2.1 What are the different types of apprenticeships?

Apprenticeships are paid jobs that include on and off the job training. They are one of the most popular ways of obtaining qualifications and skills outside of university education.

Between 2010/11 and 2017/18, over 3.8 million apprenticeships were started in England, with 2.1 million apprenticeship achievements.¹

Apprenticeships can be categorised according to their levels and equivalent educational qualifications:

Table 1: Apprenticeship levels and equivalent qualifications

Name	Level	Equivalent educational level
Intermediate	2	5 GCSE passes at grades A* to C
Advanced	3	2 A level passes
Higher	4,5,6 and 7	Foundation degree and above

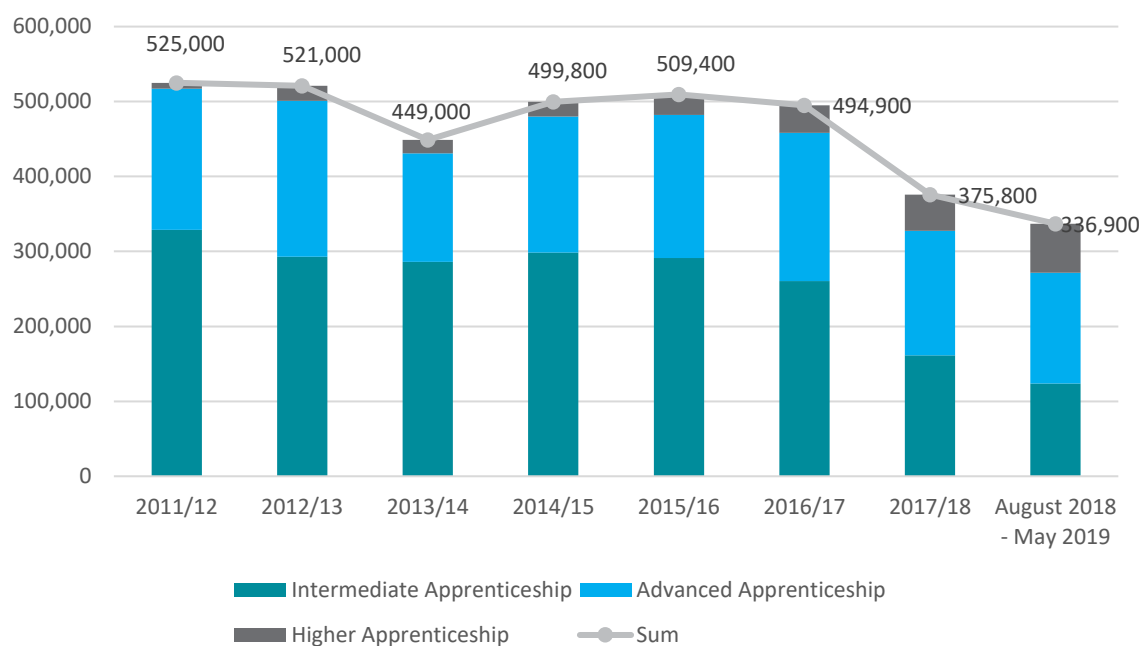
Source: Apprenticeship Statistics England

2.2 Trends in apprenticeship starts

Figure 1 illustrates the historic trend of apprenticeship starts in England. As shown, apprenticeship starts held relatively steady in the 2014/15 to 2016/17 period at around 500,000 per year. The year after that numbers fell substantially from nearly 495,000 to 375,800, a drop of 24%. This fall is largely attributed to the introduction of the apprenticeship levy in May 2017. The data for the year 2018/19 include the ten months from August to May. Comparing this ten-month period with the same period in 2017/18, we see a marked increase of 57% in the number of higher apprenticeships, as well as a small rise in the number of advanced apprenticeships. Meanwhile, 11% fewer people started an intermediate apprenticeship in the 10 months to May 2019 than in the same period a year earlier. Overall, this leaves the number of apprenticeship starts in the year to May 2019 4% above the level seen over the August 2017 to May 2018 period, suggesting that start numbers are slowly recovering from the sharp drop in the previous year.

¹ Apprenticeship Statistics England – Briefing paper 06113, 2019

Figure 1: Trends in apprenticeship starts in England by level

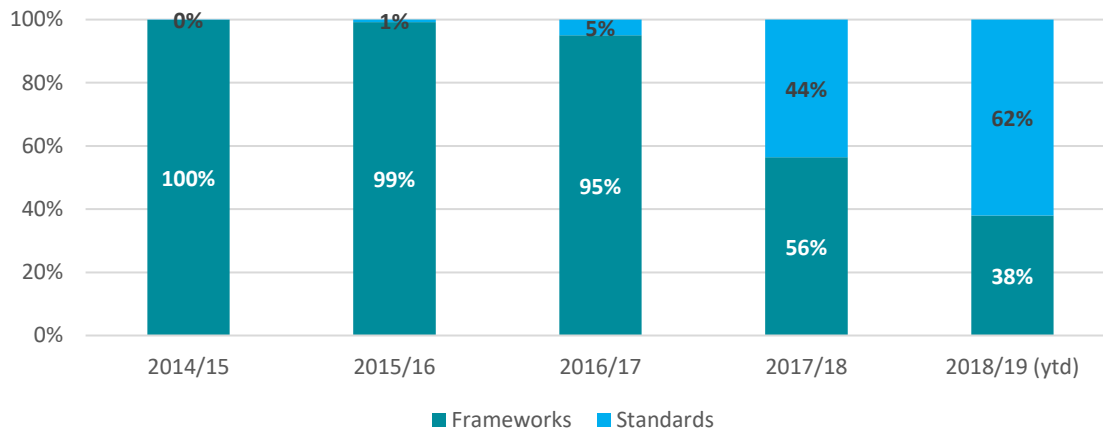


Source: Apprenticeship and levy statistics, Cebr analysis

Currently, there are two types of apprenticeship schemes offered, frameworks and standards, which were introduced in 2014. Apprenticeship frameworks are gradually being phased out and replaced with apprenticeship standards, which were developed in collaboration with employers. While frameworks were based on qualification-focussed education, standards are designed to teach an apprentice all relevant skills and qualifications required for their job. This means that apprentices develop transferable skills that have a direct effect on their employability.² The shift is visible in Figure 2, which shows that the share of apprenticeship standards among all apprenticeship starts has risen from 1% in 2015/16 to 62% in the data available for 2018/19.

² <https://apprenticeships.blog.gov.uk/2017/08/01/apprenticeship-frameworks-and-standards-the-main-differences/>

Figure 2: Apprenticeship starts by frameworks/ standards

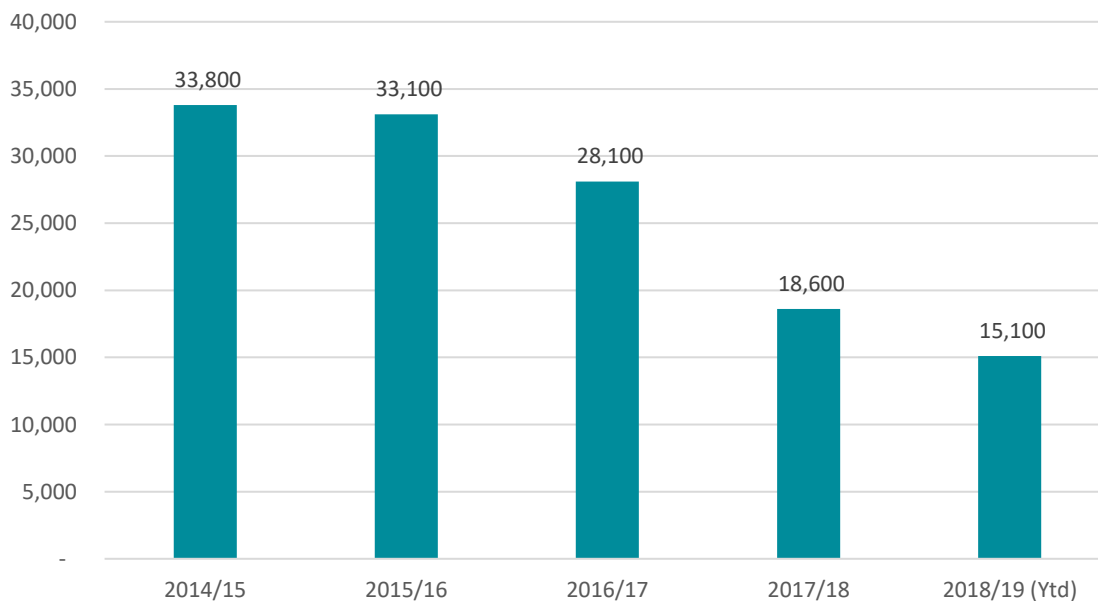


Source: Apprenticeship and levy statistics, Cebr analysis

2.3 Apprenticeship starts in the hospitality sector

The number of apprenticeship starts in the hospitality sector has largely followed the national, cross-industry trend. Starts in the sector declined marginally between 2014/15 and 2015/16, falling by 2% from 33,800 to 33,100. The following two years saw large falls from 33,100 to 28,100 starts in 2016/17 and to 18,600 starts in 2017/18. Comparing the 10 months to May 2019 with the same period a year earlier, apprenticeship starts in the hospitality sector are still down 6%, suggesting that the full year data will show another decline.

Figure 3: Number of apprenticeship starts in the hospitality sector



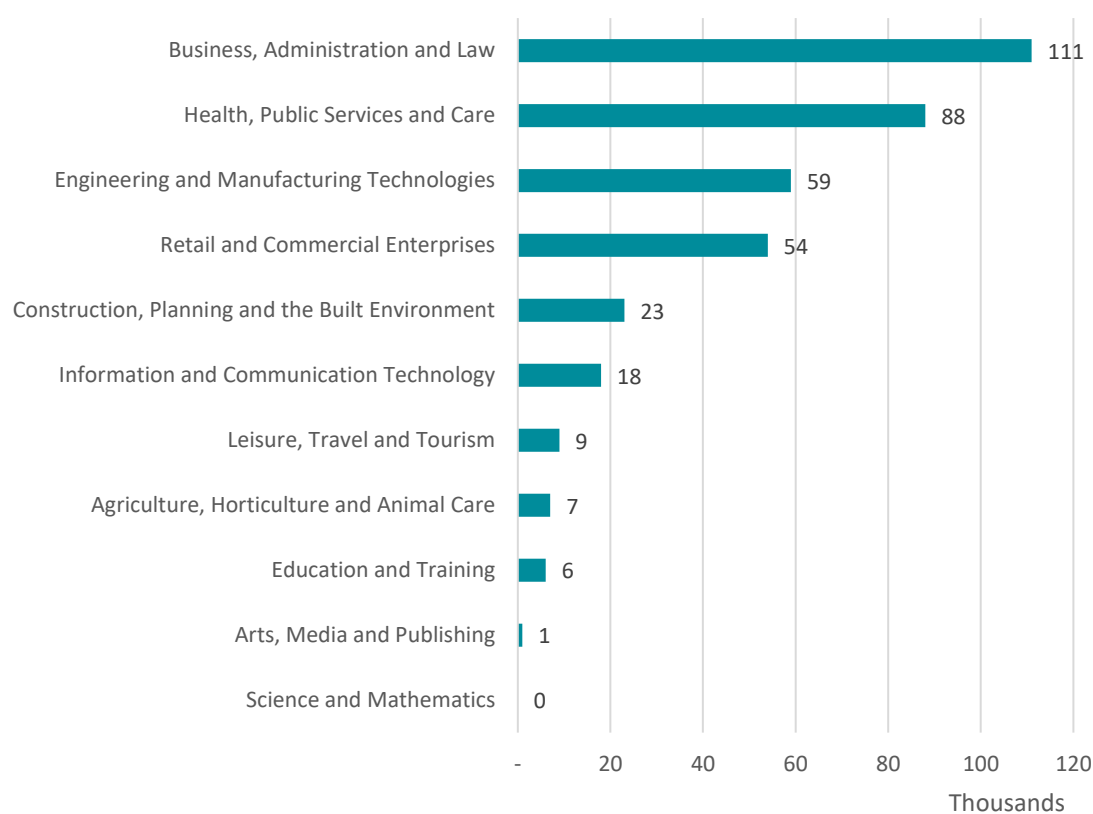
Source: Apprenticeship and levy statistics, Cebr analysis

As the number of apprenticeship starts in hospitality and catering has fallen faster than the overall number of starts, the sector now represents a smaller share of overall apprenticeship starts. While in 2014/15 around 7% of all apprenticeship starts were attributable to the hospitality sector, this has fallen to below 5% according to the latest figures.

2.4 Regional analysis by subject sector area

Within the subject sector area (SSA) categorisation of apprenticeships, hospitality and catering falls within the Tier 1 category of 'retail and commercial enterprises', along with apprenticeships in warehousing & distribution, service enterprises and retailing & wholesaling. Hospitality apprenticeship starts have accounted for around 38% of starts within the Tier 1 SSA over the past years. Figure 4 shows the distribution of apprenticeship starts among the Tier 1 subject sectors for 2017/18. Retail and commercial enterprises was the fourth most common SSA with 59,000 starts in that year.

Figure 4: Apprenticeship starts in England by sector subject in 2017/18

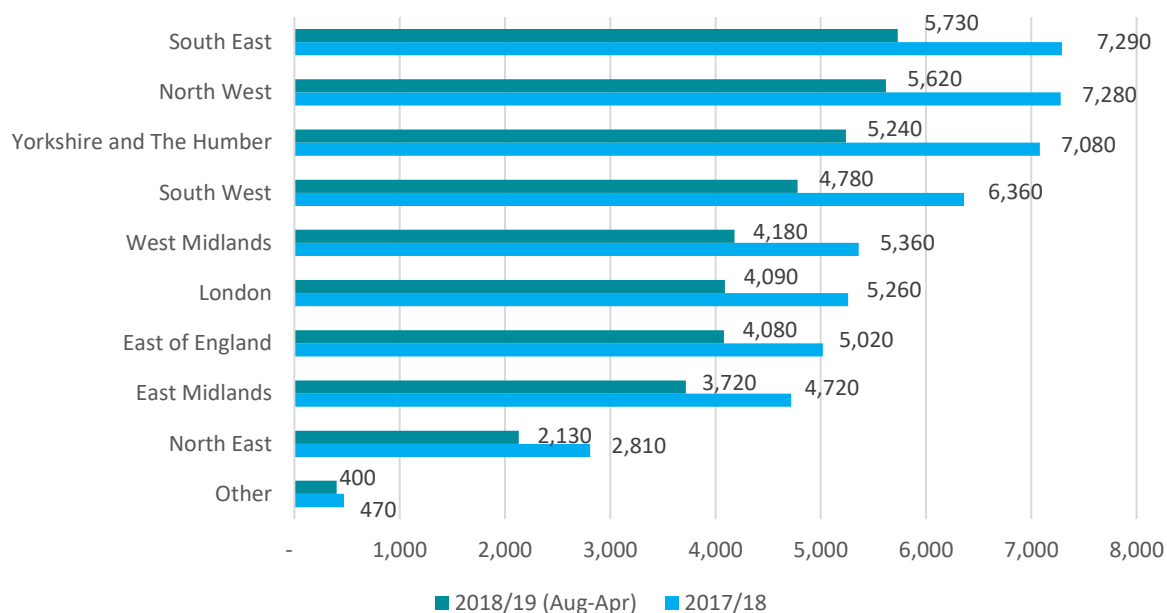


Source: Apprenticeship statistics England

Looking at the regional distribution, the data only allows us to analyse the Tier 1 SSA of retail and commercial enterprises. Figure 5 shows that the North West accounts for the largest number of apprenticeship starts in retail and commercial enterprises, followed by the South East and Yorkshire and the Humber. The East of England, the East Midlands and the North East are the English regions with the

lowest number of starts in this SSA. The data labels in Figure 5 refer to the 2017/18 time period, though the data for August 2018 to May 2019 paint a very similar picture in terms of the ranking of the regions.

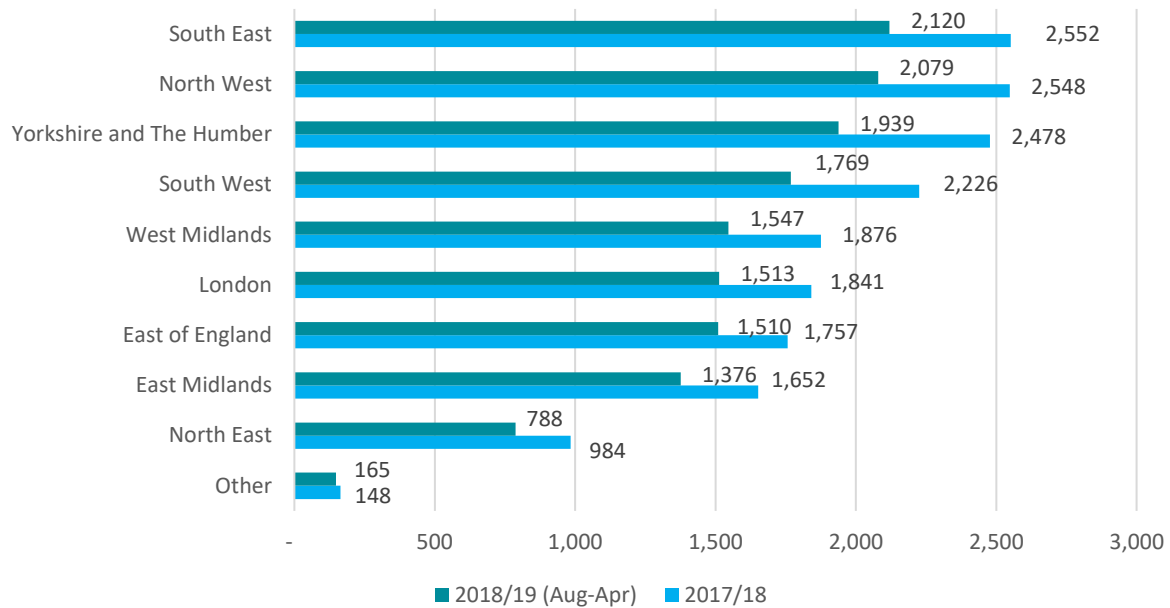
Figure 5: Apprenticeship starts by region, retail and commercial enterprises



Source: Apprenticeship and levy statistics, Cebr analysis

In order to get a sense for the number of hospitality starts by region, we can apply the share of hospitality starts within the retail and commercial enterprises SSA to the regional figures in Figure 5. This means our estimates show no regional variation of hospitality apprenticeships other than that given by the distribution of apprenticeship starts in the higher-level retail and commercial enterprises SSA. While this caveat should be taken into account when interpreting the figures, they should still serve as a useful indicator of the approximate volumes of hospitality apprenticeship starts.

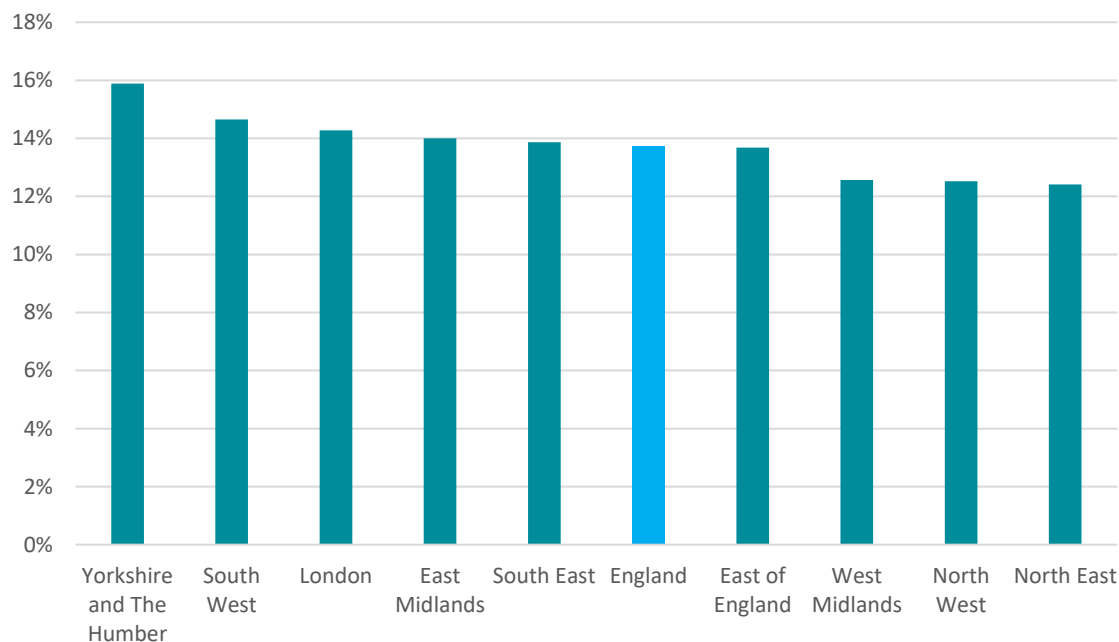
Figure 6: Estimated apprenticeship starts by region, hospitality and catering



Source: Apprenticeship and levy statistics, Cebr analysis

In England, one in seven apprenticeship starts falls within the retail and commercial enterprises SSA. This share is relatively stable across the regions, as shown in Figure 7. Yorkshire and the Humber has the highest share of apprenticeship starts in this category at 16%, followed by the South West with 15% and London with 14%. These regions all have a developed tourism sector with a focus on hospitality and retail services, which is a likely driver of the above average share of apprenticeship in this particular SSA.

Figure 7: Apprenticeship starts in retail and commercial enterprises as a share of all apprenticeship starts, 2017/18



Source: Apprenticeship and levy statistics, Cebr analysis

3 Benefits of apprentices while in training

In the long term, apprentices will often go on to remain within the business that employs them through training once they have qualified, delivering benefits for years to come. For some employers the risk that trainees will leave the business in search of new opportunities once their training is complete acts as a disincentive to employ an apprentice. However, even while an apprentice is not yet fully qualified they are able to actively contribute to the business and many employers will see economic benefits that outstrip wage and training costs. Moreover, some businesses may also be entitled to subsidies if they hire young apprentices, further offsetting training-related costs.

In the short term, the net gain to an employer of hiring an apprentice can be summarised as follows:

$$\text{Employer gain} = \text{apprentice output} + \text{apprentice subsidies} - \text{apprentice wages} - \text{apprentice training costs}$$

That is, the benefit to an employer from hiring an apprentice is the value of the economic output produced by an apprentice, plus any subsidies received, less wage and training costs.

3.1 The benefit of apprenticeships to the hospitality industry

The benefits to an employer will vary on the basis of their typical apprentice wages, the cash cost of formal training and the level of supervision required to manage their apprentices' workload. For some industries, a high level of training is required before an apprentice can safely do the job unsupervised e.g. in construction. Similarly, the complexity of some jobs, e.g. in engineering or in IT, may mean apprentice productivity is relatively low during the initial period of the apprenticeship, though this clearly rises as the apprentice becomes more experienced.

The hospitality sector is well suited to gain from the use of apprenticeships because of a combination of relatively lower wages and higher levels of apprenticeship productivity during the training period.

3.2 Apprentice output

Apprentices are by their very nature relatively unskilled as they enter a training process through which they are transformed into a qualified and experienced worker. However, despite their lower initial skill level, apprentices are still economically productive and their ability to match the economic capacity of an experienced worker increases with the duration of an apprenticeship.

In order to estimate the value of apprentices' productive output Cebr has combined data from a number of sources for various occupational routes:

- The Annual Business Survey (ABS) – the link between employment costs, including wages and national insurance costs, and economic output is used to estimate the uplift over wages that an employer might expect to gain from a fully trained staff member
- The Department for Education apprenticeship evaluation (2017) – the average number of hours spent in formal training 'off-the-job' was combined with average apprentice hours to estimate the number of productive working hours per apprentice per week
- Existing literature informed the estimate of how productive apprentices were on average relative to a fully qualified member of staff

The ABS indicates that for every pound spent on employment costs the hospitality³ industry produces approximately £1.75 in Gross Value Added (GVA). Furthermore, using data from the DfE apprenticeship evaluation we estimate that around 85% of hospitality apprentices' time is spent learning on-the-job, with the remaining 15% spent in a more formal training environment, away from the workplace.

Other literature⁴ suggests that unlike in some other industries, apprentices in hospitality can in many cases perform similar tasks as longer standing employees, albeit they are somewhat less productive as they are still learning on the job. Apprentices in hospitality were deemed to offer 82% of the productive capacity of the average for their role. This compares to less than 50% in construction or engineering apprenticeships where the apprenticeship programmes were found to be longer, and involved a shallower learning curve as apprentices only increased their productivity more gradually.

3.3 Wages

In 2018, the Annual Survey of Hours and Earnings (ASHE) recorded median pay in the Accommodation and Food services industry at £8.15 an hour. The latest Apprenticeship Pay Survey (2016) results, from the Departments for Education and Business, Energy & Industrial Strategy indicate that on average across Great Britain hospitality and catering apprentices earned £6.53 per hour. Uplifted in line with the growth in median earnings between 2016 and 2018 apprentices in the hospitality industry were estimated to have earned on average £6.86 per hour in 2018.

On top of the salary costs, businesses are also liable for national insurance contributions, which are included later in the analysis as part of total staff costs.

³ Defined in the Annual Business Survey as 'Accommodation and Food Services'

⁴ See, for example, McIntosh (2007), "A Cost-Benefit Analysis of Apprenticeships and Other Vocational Qualifications", Hogarth and Hasluck (2003), "Net Costs of Modern Apprenticeship Training to Employers" and Hogarth and Hasluck (2008), "The Net Benefit to Employer Investment in Apprenticeship Training".

Figure 8: Comparison of earnings, £ per hour



Source: Annual Survey of Hours and Earnings (ONS), Apprenticeship Pay Survey (DfE/BEIS), Cebr calculations

3.4 Training costs

The cost to employers of training apprentices consists not only of the direct funding cost for formal ‘off-the-job’ training but also of the indirect cost of supervising apprentices while they learn ‘on-the-job’. This represents an opportunity cost to the business as it takes other staff away from their usual responsibilities, reducing their output while still incurring their full staff costs. Similarly, apprentices are also paid for time spent attending training. Consequently, the direct costs of formal apprentice training programmes will depend on the nature of the apprenticeship, the fees charged by the learning provider and the type of business that is funding the apprenticeship.

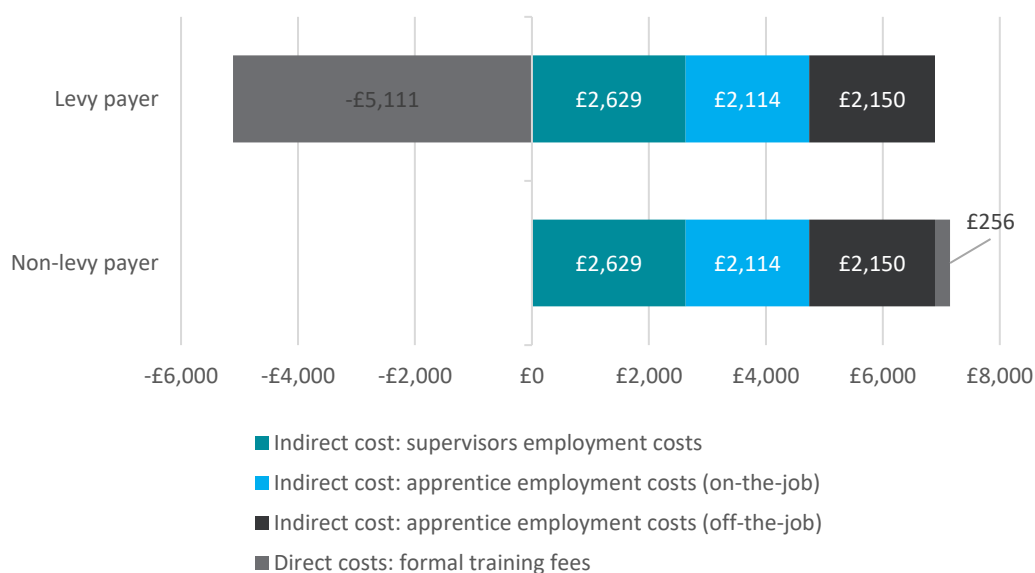
Employers must pay an apprenticeship levy of 0.5% of their annual pay bill, subject to an allowance of £15,000 per year. In practical terms, this means that any business with a total pay bill of over £3 million per year will pay the levy and this amount increases with the size of the payroll. The funds are paid into an account that the business can draw down to fund apprenticeship training and the government adds an additional 10% to the value of the fund used for training. Employers with a pay bill below the levy threshold, or those which chose to invest more than the amount in their levy fund account, can access further funds for apprenticeship training through a co-investment model. As of April 2019, these businesses are required to fund 5% of training costs and the government funds the rest.

In either scenario, an employer can only fund training for an apprentice up to a maximum level deemed appropriate for the framework or standard that the apprentice is working toward. The maximum bands

for the apprenticeship standards⁵ range from £2,500 to £27,000, depending on the respective standard. The simple average of maximum funding bands for standards in hospitality and catering is £6,333.

Assuming that formal training costs are typically aligned with the maximum funding bands then the cost to non-levy payers would be 5% of the maximum i.e. £317 for businesses in the hospitality sector. As the catering and hospitality standards have an average duration of 15 months, a levy paying firm would have to use £5,111 of the funds in their levy account on average per year⁶, while a non-levy paying firm would incur an annual cost of £256.

Figure 9: Indicative costs for hospitality firms of training an apprentice, £ per year



Source: Annual Survey of Hours and Earnings (ONS), Education and Skills Funding Agency, Cebr calculations

As payment of the levy is mandatory, regardless of whether or not an employer takes on an apprentice, the payment of levy funds towards training is effectively a nil cost to the employer, as they would otherwise have to pay the levy and receive nothing in return. From another point of view, this spending can be considered as a negative cost, as they are able to control the revenue from a tax they must pay, to fund a more productive workforce in the longer term.

Regardless of whether a business is liable for the levy or not, the indirect costs of an apprentice can be assumed to consist of the following three elements:

⁵ Approved as of August 2018

⁶ The value of each standard was adjusted by its average duration and the simple average was taken to produce this representative average annual cost

- i. **Supervisors' employment costs:** assuming that other staff members cannot be productive while supervising on-the-job training, the hourly employment cost of supervisors (including national insurance) multiplied by time spent training on the job represents the annual indirect cost
- ii. **Apprentice training costs (on-the-job):** assuming that while training on-the-job the apprentice is also not fully productive, their total hourly employment costs (including national insurance) multiplied by time spent training on the job represents the annual indirect cost
- iii. **Apprentice training costs (off-the-job):** apprentices should also be paid while training off-the-job and their hourly employment costs (including national insurance) multiplied by time spent in formal training represents the annual indirect cost.

For the hospitality industry and based on 5.8 hours on-the-job training and 5.9 hours off-the-job training⁷ per week the indirect annual costs outlined above and illustrated in Figure 9 would be £4,590, £2,114 and £2,150, respectively.

3.5 Subsidies

The funding of apprenticeships does include some government support for formal training costs as outlined above, through the co-investment route for non-levy payers and via a 10% top up to the funds in a levy payer's training account.

Additionally, there is a cash grant available to employers who take on particular categories of apprentice. The grants are for £1,000 and are designed to recognise the additional work involved in supporting young apprentices (aged 16-18) or older apprentices (aged 19-24) who have previously been in care or who have a Local Authority Education, Health and Care plan. Based on the 15-month average duration of the hospitality and catering apprenticeship standards, employers would benefit from a subsidy of £783 per year if they take on apprentices that meet either of these criteria.

3.6 The net benefit of apprenticeships in hospitality

The estimated net annual benefit of apprentices, to the businesses in the hospitality and catering industry that employ them during their training period, is £2,380 on average across England. Assuming an apprentice that is aged 16-18 or aged 19-24 who had previously been in care and a non-levy paying business the net benefit is comprised of:

- the apprentice's annual productive output of £20,500 *plus*
- the annual apprenticeship subsidy of £780 *less*
- the apprentice's wage costs⁸ (including national insurance) of £11,800 *less*
- the total training costs (direct and indirect) of £7,100

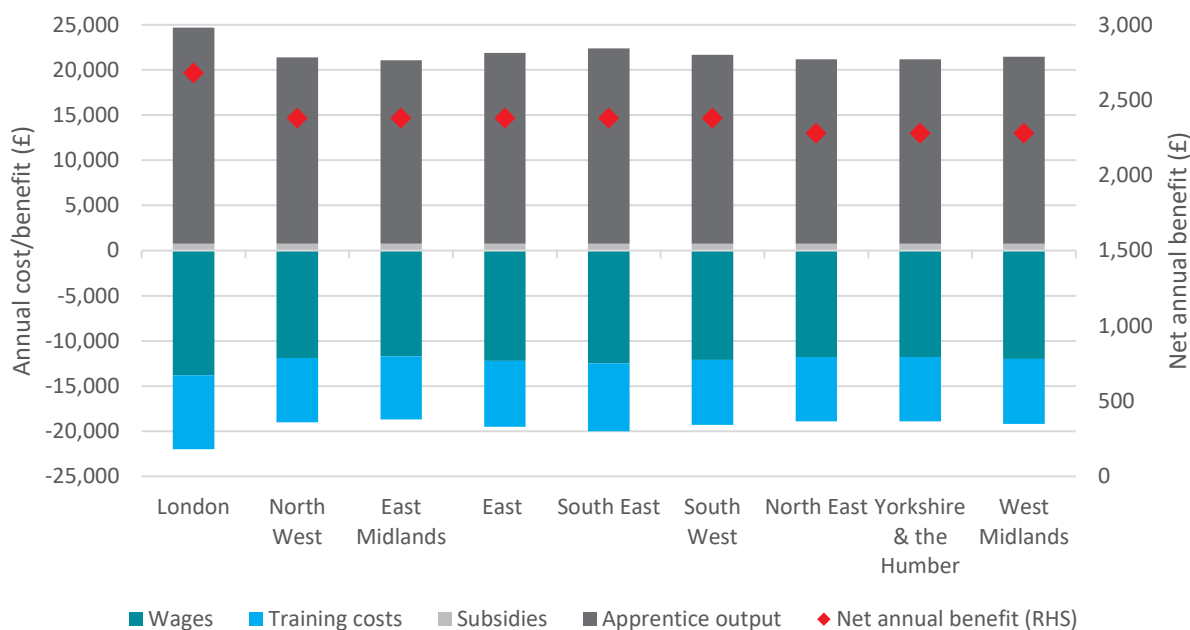
⁷ Taken from DfE apprenticeships evaluation 2017: learners, Table 4.4 using Retail as a proxy for hospitality training requirements

⁸ To avoid double counting this excludes time spent training both on-the-job and off-the-job as these are accounted for in training costs

3.7 Net benefits by region

The variation in wages across the country leads to some divergence in the regional estimates of the net short-term benefits of apprentices in the hospitality and catering industry, as illustrated in Figure 10. Notably in London, higher wages and hence indirect costs of training are offset by higher output which combines to produce the highest overall net benefit of an apprenticeship at £2,680.

Figure 10: Costs and benefits of apprentices in the hospitality and catering industry in English regions, £

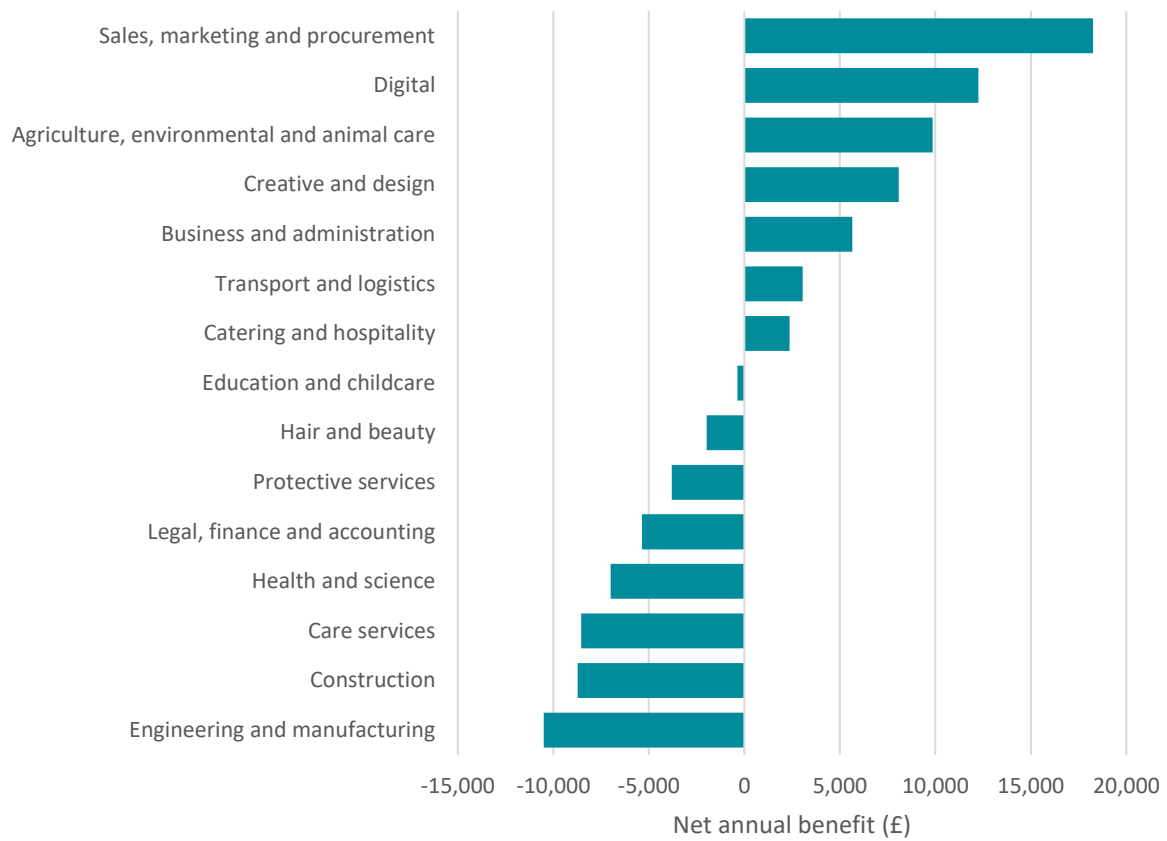


Source: Annual Survey of Hours and Earnings (ONS), Education and Skills Funding Agency, Cebr calculations

Compared to estimates of short-term benefits in other sectors, hospitality and catering apprentices stand in the middle of the range for employers. Above them are higher paid occupations such as Digital, Creative, Sales & Marketing⁹ and Business Administration and below are generally occupations in which the training burden is higher and apprentices are assumed to require training over a longer period of time in order to achieve similar levels of productivity as qualified staff. For engineering and construction apprenticeships the costs are sufficiently high that the short-term benefits are negative (see Figure 11), with most of the benefits of apprenticeships in these fields accruing to employers over the longer term once the apprentice has qualified.

⁹ The productivity of apprentices in these occupations has been subject to less research than more traditional apprenticeship frameworks and hence the estimates of apprentice output may be subject to greater variability.

Figure 11: Net annual benefit to apprentices by occupation, £



Source: Annual Survey of Hours and Earnings (ONS), Education and Skills Funding Agency, Cebr calculations

4 The longer-term benefits of apprenticeships

Apprenticeships provide prospective employees with the technical skills and knowledge required to thrive in the workplace. They offer an alternative route into high-skilled jobs outside the traditional university system. Done correctly, apprenticeships offer long-term benefits across three different channels: the apprentice, businesses and the wider economy.

Top 5 benefits of apprenticeships

1. *Reduced likelihood of future unemployment*
2. *Increased long-term wages*
3. *Increased employee productivity*
4. *Increased tax revenue*
5. *Increased consumer expenditure*

4.1 The apprentice

For apprentices themselves, the training and skills development provided by apprenticeships leads to an improvement in their long-term employment prospects. Because apprentices benefit from the ability to put their skills to immediate use in practical working situations, they increase familiarity of the work environment, way ahead of university graduates who join the workforce later.

According to Parey (2016), former apprentices are therefore less likely to experience unemployment than their counterparts who have achieved a similar level of qualification through school-based education, with each additional year of apprenticeship training reducing the probability of unemployment by 0.04 percentage points.¹⁰ The benefits of future higher employment rates are especially clear for those who complete higher apprenticeship levels. Over two-thirds of Level 3 apprentices remained in their job immediately after completing their apprenticeship¹¹, while 10% gained promotion with the same employer, as opposed to 4% of Level 2 apprentices who achieved the same.

Data from the Learners and Apprentices Survey (2018) presented in Figure 11, show that 75%¹² of apprentices who had never worked before completing their apprenticeship had moved into and remained in paid work soon after completion. Just 26% of further education learners, who complete education post-secondary school level but distinct from higher education offered by universities, said the same. The findings support the view that apprenticeships are also better in offering those without previous work experience a chance to gain long-term employment. More generally, the survey further found that 90% of apprentices were working following the completion of the apprenticeship, up from 70% who were working prior to their apprenticeship.

The long-term benefits for the apprentice are not just limited to employment outcomes. Using 18 years' worth of labour force survey data, Macintosh and Morris (2016)¹³ find that there is a wide range of wage premiums associated with vocational qualifications in the UK. The average wage premium for a Level 3 apprenticeship is approximately 9% compared to individuals who achieve the same level of qualification

10 https://www.econstor.eu/bitstream/10419/145655/1/Vfs_2016_pid_6604.pdf

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https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/469814/Apprenticeships_developing_skills_for_future_prosperity.pdf

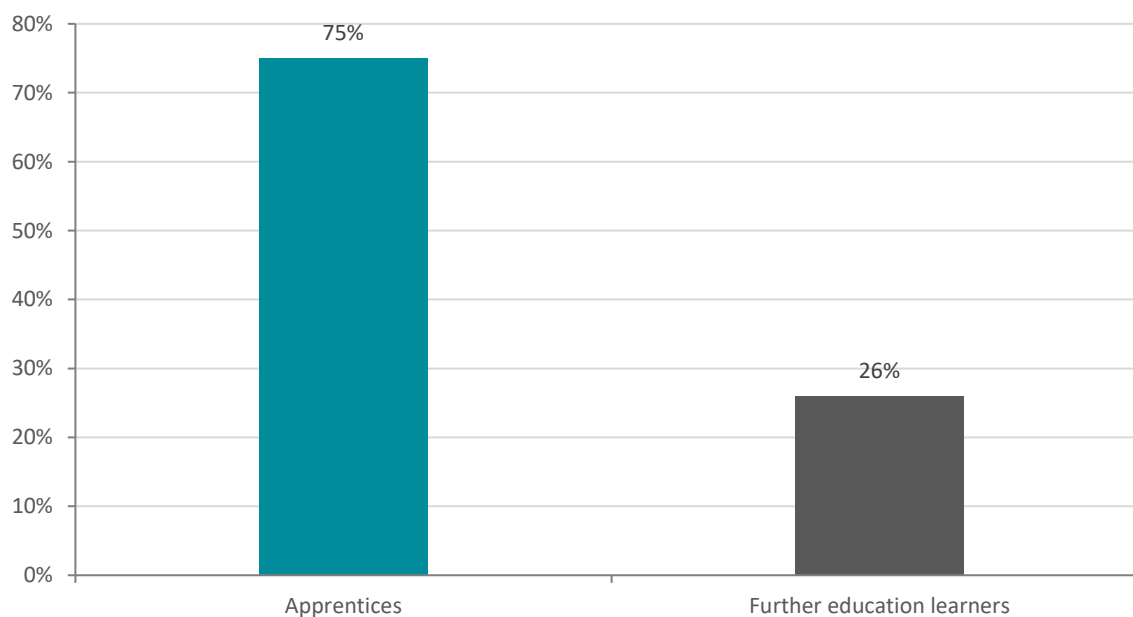
12 https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/808273/BRANDED-Learners_and_Apprentices_Survey_2018_-_Main_Report_-_14_May_2019_-_Clean.pdf

13 <http://cver.lse.ac.uk/textonly/cver/pubs/cverdp002.pdf>

but without an apprenticeship, with wage premiums more pronounced for men than for women. This is because most apprenticeships have been male dominated in sectors such as manufacturing and construction. However, most of the recent growth in apprenticeship numbers has been in female-dominated areas such as health, public service and care, increasing the prospects of women benefitting from wage premiums in the future.

As with the prospects for employment, research suggests that the higher the apprenticeship level achieved, the greater the returns are with respect to wage. Apprentices who achieved their Level 3 qualification at age 18 or younger earn 23% more per hour than those who hold a Level 2 qualification.¹⁴

Figure 12: Share of apprentices and further education learners without previous employment who moved into and remained in employment post qualification



Source: Department for Education, Cebr analysis

The wage premium observed differs across sectors. Industries such as engineering and construction are consistently associated with the highest long-term returns, while service sector occupations, such as caring, childcare and hospitality/catering are typically associated with smaller returns, largely driven by the lower wage levels within these occupations. However, wage returns for apprenticeships in the hospitality sector are projected to benefit from a boost in the near future. According to the Annual Survey of Household and Earnings, the rate of salary growth in hospitality was among the highest of key sectors in the UK last year, including information & communication and financial & insurance, rising by 5% in the year to December 2018¹⁵, pointing to greater wage returns for apprentices in this sector in the long-term.

Another noteworthy albeit sometimes overlooked benefit of apprenticeships is the increase in social mobility. With the prospect of higher tuition fees and student debt making higher education less appealing for some individuals, apprenticeships provide an alternative route to gaining employment and income. The chance to 'earn and learn' gives an opportunity for individuals to work towards a career that

¹⁴ <https://www.personneltoday.com/hr/premium-should-be-paid-for-high-value-apprenticeships/>

¹⁵

<https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/earningsandworkinghours/datasets/averageweeklyearningsbyindustryearn03>

may not have been available in the absence of apprenticeships, thereby narrowing the future attainment gap between students from poorer backgrounds and their better-off peers.

4.2 The business

Long-term employer benefits are likely to be realised through costs savings and increased output. In a 2016 survey, 89% of companies said apprentices helped to increase productivity, while 75% of apprentice employers said apprenticeships helped to cut recruitment costs, according to the Advisory, Conciliation and Arbitration Service (Acas).¹⁶ These improvements boost a firm's revenue and profits in the long-term. Building on the work of Hasluck et al (2008)¹⁷, who quantify productivity increases from apprenticeships as percentages of the average wage of an employee in each sector, and using the latest full-year data from the Annual Survey of Household and Earnings, we estimate the impact of apprenticeships on worker productivity. We find that the rise in productivity of hospitality apprentices led to gains of over £40 million for the sector in 2018.

An employer's ability to benefit from apprenticeships depends on how quickly they recoup their investment in apprenticeship training and retain their apprentices. BIS research¹⁸ suggests that the payback period for the cost of an apprenticeship is between six months and four years, depending on the sector and level of the apprenticeship. A firm in the hospitality sector, having provided a Level 2 apprenticeship, can expect to recoup costs 10 months after completion.¹⁹ This is notably quicker than other sectors because of the nature of the work in hospitality, which allows for apprentices to achieve similar levels of productivity as an experienced worker sooner than in other sectors such as engineering.

Table 2: Time taken to recover apprenticeship training investment

Sector	Apprenticeship Level	Payback period
Financial Services	Level 2	3 years, 8 months
Engineering	Level 3	3 years, 7 months
Social Care	Level 2	3 years, 3 months
Financial Services	Level 3	2 years, 6 months
Construction	Level 2 + 3	2 years, 3 months
Retail	Level 2	2 years, 3 months
Hospitality	Level 2	10 months
Business Administration	Level 2	9 months
Transport	Level 2 (mechanic)	6 months

16 <https://www.acas.org.uk/index.aspx?articleid=5910>

17 Hasluck et al (2008), The net benefit to employer investment in Apprenticeship training, Apprenticeship Ambassadors Network

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https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/469814/Apprenticeships_developing_skills_for_future_prosperity.pdf

19 https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/32306/12-814-employer-investment-in-apprenticeships-fifth-net-benefits-study.pdf

Source: Department for Business, Innovation & Skills, Cebr analysis

In 2018, 69% of employers surveyed by the National Apprenticeship Service²⁰ said that employing apprentices improved staff retention, with 65% of apprentices staying to work for the company that trained them after completing their apprenticeship. This is particularly good news for the hospitality sector, as attracting and retaining quality employees is one of the industry's biggest challenges, due to a shortage of labour and development programmes to attract the best employees.²¹ Acas also finds that 57% of firms agree that a high proportion of their apprentices go on to hold management positions within the company – this rises to 63% for firms in the hospitality and catering sector, as shown in Figure 12.²² Retaining apprentices in the longer term allows for businesses to meet skills demand in the future, with 63% of firms in hospitality / catering saying that without apprenticeships it would be difficult to find the trained staff they needed, as shown in Figure 13. The higher retention rates are most likely a result of the loyalty from apprentices to the firm which has provided their training, often giving them confidence to continue progressing in that same organisation. The majority of firms in the hospitality sector agree, with 63% saying that apprentices tend to stay with the company longer than non-apprentice employees.²³ The UK's exit from the EU threatens the ease with which the sector can hire workers from across Europe, with data suggesting that 12.3% of employees in the UK's hospitality sector are EU nationals, compared to an average of 6.9% for the UK workforce as a whole.²⁴ Apprentices are therefore likely to become an even more valuable source of labour for the hospitality sector post-Brexit.

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https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/750903/Apps_A5_Achieving_the_benefits-280918-2.pdf

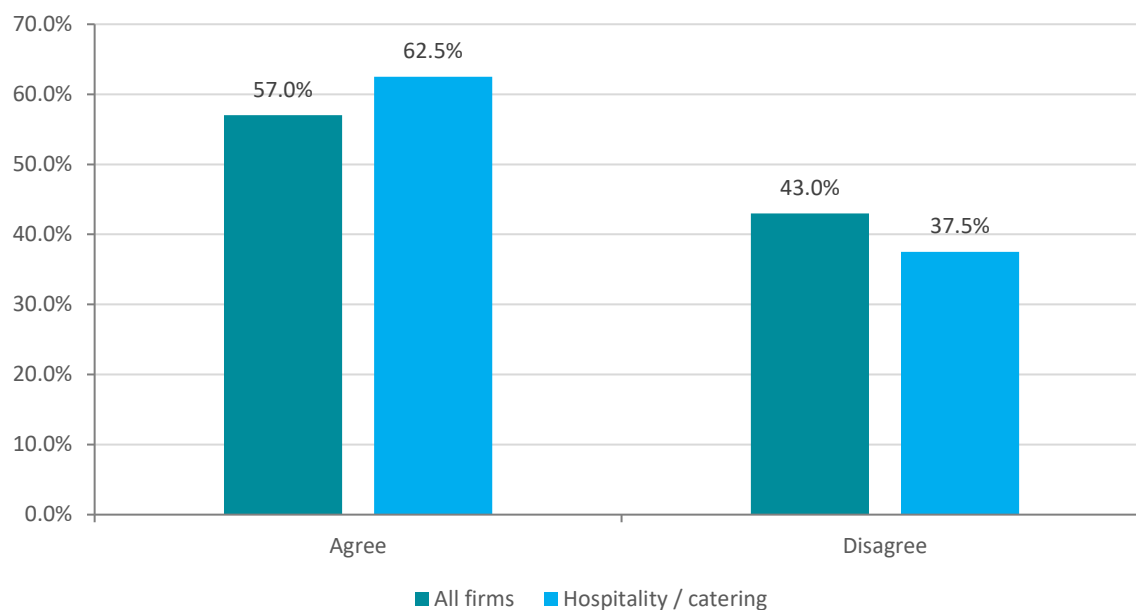
21 <https://www.thecaterer.com/articles/542877/hospitality-wages-up-by-38-as-sector-becomes-highest-riser>

22 http://www.populus.co.uk/wp-content/uploads/2015/12/download_pdf-060208-Hill-Knowlton-on-behalf-of-The-Learning-Skills-Council-Apprenticeships.pdf

23 http://www.populus.co.uk/wp-content/uploads/2015/12/download_pdf-060208-Hill-Knowlton-on-behalf-of-The-Learning-Skills-Council-Apprenticeships.pdf

24 <https://www.bha.org.uk/wordpress/wp-content/uploads/2017/05/BHA-EU-migration-final-report-170518-public-vSTC.pdf>

Figure 13: Proportion of businesses that agree that a high share of apprentices go on to management positions within the company



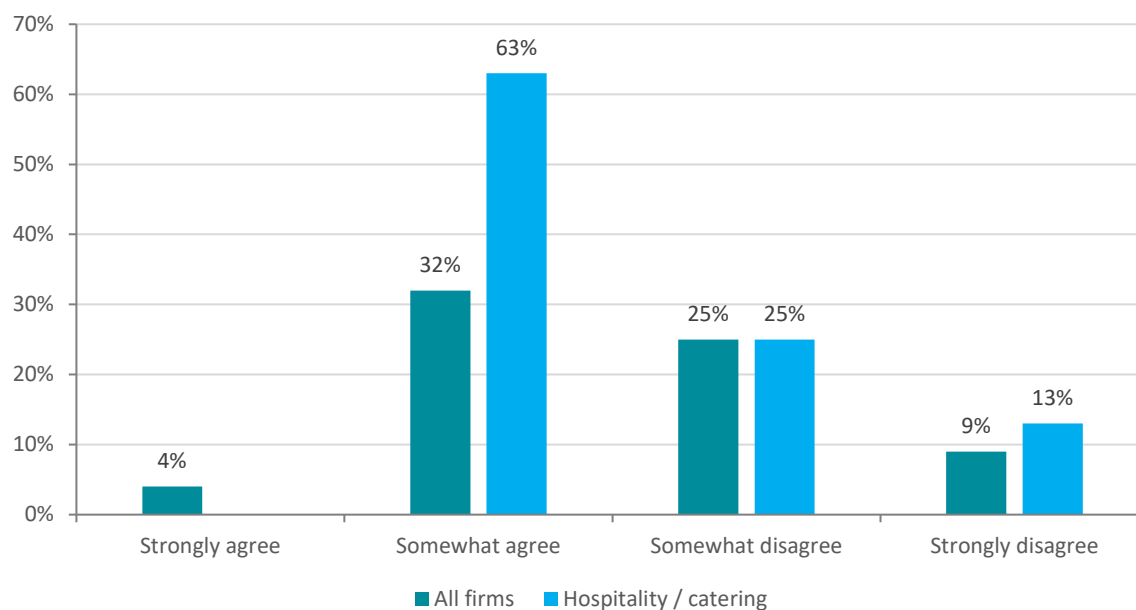
Source: Acas, Cebr analysis

Note: Numbers may not round to 100% due to rounding

The long-term benefits of apprenticeships to businesses bode particularly well for the hospitality sector, given its role in the UK's travel & tourism sector. ONS²⁵ figures show that overseas visits to the UK earned the economy approximately £2 billion on average each month in Q1 2019. One consequence of the weakening of the pound since 2016 is that it drives both overseas and domestic tourism demand to the UK. This increase in tourist activity should give more scope for the hospitality sector to realise the benefits from its apprenticeships in the years ahead.

²⁵ <https://www.ons.gov.uk/peoplepopulationandcommunity/leisureandtourism/datasets/internationalpassengersurveytimeseriesspreadsheet>

Figure 14: Share of firms who would find it very difficult to hire trained staff with the right skills without their apprenticeship programme



Source: Acas, Cebr analysis

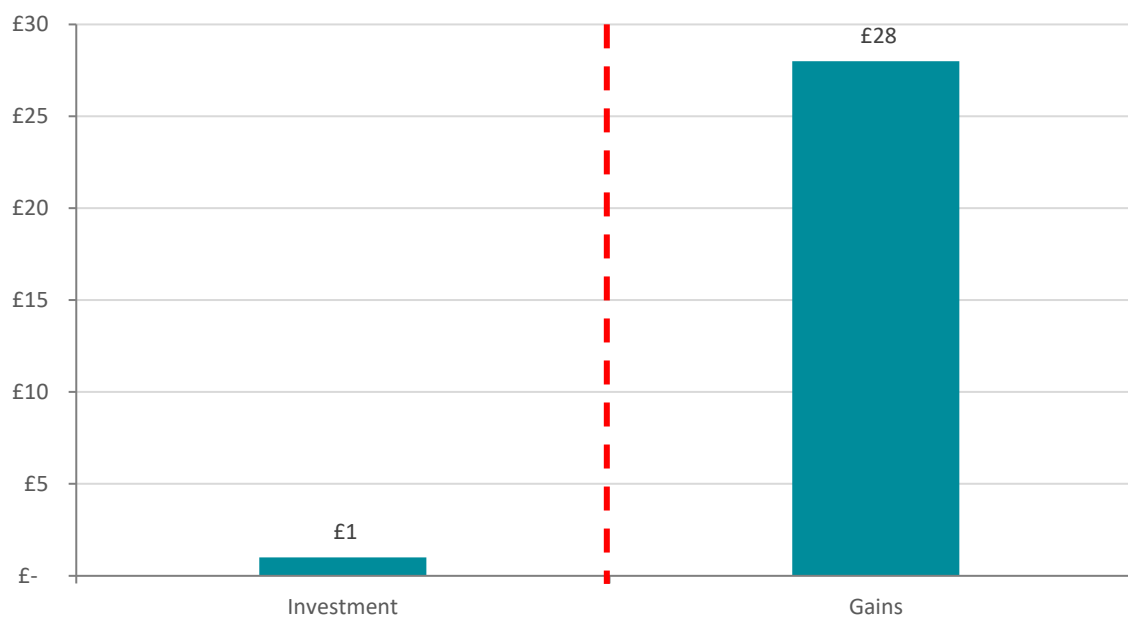
4.3 The wider economy

The successful implementation of apprenticeship programmes also leads to a significant return for the taxpayer in the long-term. As shown in Figure 14, for every £1 of government investment in apprenticeships at Level 2 and Level 3, the government earns between £26 and £28, respectively. This is higher than the £20 return for every £1 of investment for further education qualifications as a whole.²⁶

These benefits to the government are realised through higher tax revenues, not only from apprentices' wage premiums, but also from increased business profits as firms reduce costs and increase productivity. Not only this, but with apprentices expected to remain in employment after the completion of their course, it is likely the government will pay less benefits in the long-run, as fewer individuals completing apprenticeships require unemployment payments.

²⁶ https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/482754/BIS-15-604-english-apprenticeships-our-2020-vision.pdf

Figure 15: Government gains from apprenticeships vs. investment



Source: HM Government, Cebr analysis

Finally, apprentices are likely to spend at least some of their wages, with the higher consumption levels supporting demand for products across all sectors of the UK. The increase in consumption will arise even before an apprentice completes their course, as they receive payment from employers while in training. Given the average apprentice is paid £170²⁷ per week, across the 276,000 individuals who completed apprentices in 2017/2018, over £3.3 billion worth of income was earned. With the government dedicated to increasing the number of individuals taking up apprenticeships, the higher spending power among this cohort will also be of additional benefit to other businesses in the economy who do not hire apprentices.

²⁷ <https://www.aat.org.uk/apprenticeships/how-apprenticeships-work>

5 Conclusions

This report analyses the benefits of apprenticeships with a particular focus on the hospitality sector. In terms of the high-level numbers of apprenticeship starts, the hospitality and catering sector has largely followed national, cross-industry trends which saw a steep decline in starts in 2017/18. There are, however, some reasons for cautious optimism as overall apprenticeship starts have begun to rise again in the 10 months to May 2019 compared to the same period a year earlier.

Apprenticeships play an important role in equipping the workforce with the skills required in the economy. This is especially true for the hospitality sector where the combination of formal and on-the-job training is required for staff to progress into management and supervisory positions.

The report shows that apprentices bring real economic benefits to businesses in a number of ways. Calculating the net gain from taking on an apprentice as the sum of the apprentice output plus any subsidies received from government less the wage and training costs, our report finds that the estimated net annual benefit of hospitality and catering apprentices during the training period is £2,380 across England.

In the longer term, all involved parties stand to benefit from apprenticeships. The apprentices enjoy an upgrade to their skillset which increases employability and reduces the risk of unemployment. Surveys have found that 90% of apprentices were working either full- or part-time after completing their training, up from a share of 70% who were in employment prior to the apprenticeship.

The benefits are also measurable in terms of higher wages. Apprentices earn on average 9% more than similarly qualified people who have not completed an apprenticeship. Furthermore, those who complete a higher level apprenticeship can also generally negotiate a higher wage than those who do shorter, lower level programmes.

For businesses, the benefits of apprenticeships go beyond the noted short term boost in output. They also enjoy higher retention rates and can address their internal skills shortages, especially for managerial and supervisory positions.

Lastly, apprenticeships benefit the wider economy via an increased tax take from apprentices' higher wages and businesses' increased profits. This makes apprenticeships a win-win for society with every £1 of investment generating a £28 return for the taxpayer in the long-run.