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**Report by the
Comptroller and Auditor General**

Scottish Enterprise: Skillseekers Training for Young People

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This report has been prepared under Section 6 of the National Audit Act 1983 for presentation to the House of Commons in accordance with Section 9 of the Act.

John Bourn
Comptroller and Auditor General

National Audit Office
16 February 2000

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Overview

1   This report examines the achievements and efficiency of Scottish Enterprise's funding of training for young people to achieve different levels of Vocational Qualifications (VQs - see Box 1) through the Skillseekers programme, delivered through Local Enterprise Companies, LECs.

Scottish Vocational Qualifications

Box 1

Level 1: the performance of a range of varied work activities, most of which may be routine or predictable, such as Porter, Vehicle Valeting, and Road Worker.

Level 2: some of the activities are complex or non-routine, often with some individual responsibility and autonomy and collaboration with others. Examples of occupations are: ShopAsst, Warehouse Asst, Admin assistant

Level 3: mostly complex and non-routine activities often requiring considerable responsibility and autonomy, and control or guidance of others. Examples of occupations covered: - Joiner, Bricklayer, Motor Mechanic, Welder, Toolmaker, Asst Accountant, and Office Administrator.

Level 4: a broad range of complex, technical or professional work activities with a substantial degree of personal responsibility and autonomy. Responsibility for the work of others and the allocation of resources is often present.

Level 5: wide and often unpredictable work contexts with very substantial personal autonomy and often significant responsibility for the work of others. Allocation of substantial resources features strongly, with accountabilitiy for analysis, diagnosis, design, planning, execution and evaluation.

Source: Scottish Enterprise

2   We found that the LEC network has made considerable progress in terms of delivering VQs and improving training quality standards, over a period when the amount paid to them by Scottish Enterprise has fallen significantly. LECs have also been able to offer consistently training opportunities to 16 and 17 year olds in respect of meeting the training guarantee. LECs have also been broadly effective in assessing local labour market skills needs as part of their overall remit, meeting targets for training starts and employment placements.

3 There are, however, a number of ways that Scottish Enterprise and the LECs can build on their successes. A policy review by the Scottish Executive of the provision of training for 18-24 year olds should be used to clarify the consistency of access to Skillseekers training opportunities for this group. Action in hand to ensure achievements are measured and monitored on a consistent, reliable and accurate basis should be completed. LECs must continue their efforts to improve performance against targets for achievement at VQ level 3 and Scottish Enterprise should examine what scope exists for further increasing the proportion of Skillseekers support which contributes to training which would not have been provided in the absence of the programme without compromising the quality of training provided. Scottish Enterprise should also ensure that their plans to revise their Skillseekers pricing system take full cognisance of the additional information to be available from the new Corporate Training System to inform decisions on factors such as the minimum public sector contribution, and also address other important issues. There is scope for benchmarking across LECs and with results achieved elsewhere in the United Kingdom, with a view to improving cost effectiveness.

4 Our key recommendations are at the end of this summary.

Background (Part 1)

5 In 1998-99, within their £393 million Grant-in-Aid, Scottish Enterprise spent £69 million on the Skillseekers programme for training directly related to employment for those aged 16-24. Of this, £63 million was targeted towards their objective of enhancing skills and capacities of young people by supporting training for qualifications at VQ 2 and above.

6 Skillseekers is delivered through contracts with a network of thirteen Local Enterprise Companies. The LECs are companies, limited by guarantee, which deliver programmes including Skillseekers to meet the needs of the local economies in the areas in which they operate.

7 Young people aged 16 and 17 who leave full time education and do not enter employment are guaranteed a training place. Assistance for training for those aged between 18 and 24 is offered on a discretionary basis.

What has Skillseekers achieved? (Part 2)

Meeting the national guarantee

8 We found that Scottish Enterprise make sufficient training places available to satisfy the guarantee, but a small number of eligible trainees wait longer than the eight week period that applies to the guarantee. This may be because an offer of training is refused, or because a place fitting the trainee's capabilities or aspirations may not be available.

Training for 18 to 24 year olds

9 LECs are expected to match provision of training opportunities for 18-24 year olds with local economic needs, with priority on higher level qualifications. LEC assessments of the demand for training for 18-24 year olds were not well documented. Access to Skillseekers is being considered as part of a Scottish Executive policy review of post-16 non-advanced education and training.

Meeting local needs

10 LECs have collected most of the information necessary to comply with best practice for compiling local skills strategies. But more information on skills shortages and labour market conditions in neighbouring LECs, would be useful. Skills strategies identify priority areas for training but the training delivered may not always match the priorities because delivery is constrained by the demand led nature of Skillseekers. We found that information in relation to Skillseekers fit with LECs' skills strategies was not always available.

Performance measures and performance against them

11 Scottish Enterprise have introduced an Output Measurement Framework to relate inputs and outputs and they have action in hand to ensure that information supporting the framework is presented in a consistent and reliable way across LECs.

12 The network has annual activity targets for new starts and for the proportion of trainees in training with employed status. LECs have broadly met these targets.

13 The number of VQs at all levels achieved with Scottish Enterprise support has also increased over time, though LECs have consistently produced more level 2 and fewer level 3 VQs than expected .

14 Scottish Enterprise produced figures showing that in 1997/98 the costs they incurred in delivering VQ points were less than those recorded for England.

Measuring positive outcomes

15 Scottish Enterprise identify continued employment and further training as the longer-term outcomes of Skillseekers. They gather information on these outcomes through a follow-up survey of ex-trainees, but they make little use of it.

16 Our analysis shows that the proportion of trainees achieving positive outcomes remained around 70 per cent between 1995-96 and 1997-98. The results of a similar survey in England showed a rise of 3 per cent over the same period. The proportion of ex-trainees who claimed to be unemployed had remained broadly static in Scotland at around 23 per cent, while in England the figures fell by 4 per cent. Differences in the methodologies used may limit the scope for direct comparison of absolute results across the two countries. But changes to the methodology used in Scotland, and a focus on movements in trends, provides some scope for further benchmarking in future.

17 Scottish Enterprise, in common with other parts of Great Britain, have yet to measure positive outcomes over the longer term, though we found that some LECs were now considering ways of tracking trainees after the completion of training courses.

Costs and benefits

18 Scottish Enterprise produced an evaluation of the early impact of Skillseekers in April 1998. It concluded that young people had acquired relevant and useful skills and that Skillseekers was helping young people to obtain jobs.

19 Most Skillseekers trainees would have received some form of training in the absence of the programme but not necessarily towards securing a vocational qualification. This is to some extent inevitable given the Youth Training guarantee and the Skillseekers objective to secure employed status for trainees, but Scottish Enterprise have confirmed that they accept the need to examine what scope there is to further increase the additionality of training without compromising quality of provision for young people.

20   Skillseekers also delivers a range of labour market benefits for employers such as motivated and productive young people. The evaluation found that two-thirds of these benefits would not be obtained without the initiative.

How well has Skillseekers been provided? (Part 3)

Scottish Enterprise prices

21   It is a positive achievement that since 1996 the unit prices paid by Scottish Enterprise to LECs for trainee places have fallen by 16 per cent. In the same period, the prices paid by LECs to providers have also fallen but by a lesser amount. Despite lower prices, LECs had not experienced any significant loss of training providers.

22   Scottish Enterprise use incentives to LECs to ensure the public sector contribution to training is the minimum necessary. But LECs are able to make only limited use of competitive tendering. Evidence of their negotiations with employers and providers are not well documented.

23   In these circumstances we cannot provide assurance that Scottish Enterprise's expenditure was the minimum necessary to achieve the quality and quantity of training delivered, or that reductions in the level of public sector contribution to training could not have been achieved earlier. However the £25 million reduction in annual expenditure which resulted from the fall in prices paid by Scottish Enterprise between 1996-97 and 1998-99 is a significant achievement.

24   Scottish Enterprise inherited a price setting system from a previous Youth Training regime and it has gradually evolved to take account of changes to the delivery mechanism. Scottish Enterprise are reviewing the price setting system and, in doing so, they should continue to place emphasis on reducing the public sector contribution to training.

25   The difference between the funds obtained from Scottish Enterprise and the amount paid to providers allows LECs to earn operating surpluses. LECs invest these in training infrastructure and in projects that address specific local priorities. The margin between the funds from Scottish Enterprise and the price paid to providers is not predetermined and is designed to be an incentive to LECs to minimise the public sector contribution. We found that the difference between the amounts the LECs claimed from Scottish Enterprise and the price LECs paid to employers/providers varied significantly. The range may indicate over generous payments to some LECs at the expense of others.

26   In April 1999, Scottish Enterprise introduced their Corporate Training System. The system is designed to harmonise the administration of Skillseekers across the network and to provide more transparency on training activity. Over time, the system should provide Scottish Enterprise with a more comprehensive record of trainee expenditure, progress and achievements from which information relating to budget allocation and training credits can be drawn, and we look forward to its full implementation.

The efficiency of provision

27   Scottish Enterprise report the relative efficiency of expenditure on Youth Training by a measure of VQs achieved per £ million of expenditure. But this measure is flawed because it compares in-year expenditure with achievements funded over a longer period. Our analysis of a cohort group found that the measure of efficiency used by Scottish Enterprise understates their achievements.

28   However, we found also that there were significant variations in efficiency across LECs that warrant further investigation. The proportion of trainee starts that result in a VQ varies from 39 per cent to 74 per cent across LECs.

29   53 per cent of trainee starts in our cohort of VQ level 2 starters had not achieved the VQ. This group accounts for some 20 per cent of expenditure, the equivalent of up to £14 million of annual expenditure on Skillseekers. Within this, up to £3 million may have been spent on training where the trainee made only limited progress.

30   Our analysis shows that only about half of the variation in cost per achieved VQ level 2 can be explained, even taking account of differences between LECs and the type of training provided, and the ability of the trainee. This indicates scope for further examination of the reasons for the variations in costs between LECs and whether efficiency savings are possible.

Monitoring quality

31   Scottish Enterprise use the Scottish Quality Monitoring System, SQMS, to ensure training providers are equipped to deliver training to meet quality standards. SQMS requires providers to achieve certain criteria before they apply for accreditation. Once accredited they are subject to periodic quality audits examining compliance with criteria. We found that, in general, the training providers employed by the LECs were accredited, and that audit action was up to date giving assurance about quality of provision. Almost 8 out of 10 employers and trainees rated the programme as good or very good.

Key Recommendations: Enhancing achievements

- Scottish Enterprise should review their policy on access to Skillseekers training for the 18s and over in the light of the Scottish Executive's policy review, particularly given the Scottish Executive's target to have 20,000 young people undertaking Modern Apprenticeships at VQ level 3 and above by 2003;

- Scottish Enterprise should complete its work to ensure performance across the LEC network is measured on a consistent, reliable and accurate basis using its output measurement framework;

- Scottish Enterprise should set targets for continued employment and further training. Existing follow-up information on trainees, and the collection of better and more extended follow-up information is likely to assist in target setting;

- Scottish Enterprise should, where appropriate, benchmark LEC performance against results recorded in England to understand better the reasons for differential performance within the Network and with England; and

- Scottish Enterprise should examine what scope there is to increase the additionality of training without compromising quality of provision for young people.

Key Recommendations: Towards greater efficiency

- We support Scottish Enterprise's plans to review their pricing system. We consider that the introduction of a Corporate Training System will provide additional information on training volumes and costs which Scottish Enterprise should use to improve the system by:

  - ❑ producing benchmarking data to provide new evidence of the minimum contribution necessary to deliver expected levels of quality for different types of training;

  - ❑ providing profiles of expenditure trends to inform estimates of expected volumes and costs, which underpin budget allocation, in payment terms used by the programme;

❑ introducing further analysis of operating surpluses earned by LECs to inform assumptions on surplus expectations to be included in the model.

In addition

■ Scottish Enterprise should also use the Corporate Training System to calculate VQs per £ million on the basis of actual costs and achievements to provide a more reliable and transparent measure of relative efficiency;

■ LECs should take steps to improve the completions/starts ratio, drawing on best practice across the network. This will enable more achievable targets to be set for achievement of VQs at each level;

■ the efficiency of training achievements could be enhanced by developing measures of the benefit gained from training that does not lead to a VQ. Developing an appropriate measure poses significant difficulties but these will be eased by the introduction of the Corporate Training System which will present training records in a more useable form;

■ further analysis is needed of the causes of variation in cost per VQ achieved, with benchmarking to determine and spread best practice; and

■ Scottish Enterprise and the LECs should continue to monitor quality, particularly taking account of employer and trainee views.

Part 1: Background

Scottish Enterprise are responsible for a range of functions including training

1.1 Scottish Enterprise were established in April 1991, under the Enterprise and New Towns (Scotland) Act 1990, with responsibility for:

■ furthering the development of Scotland's economy and in that connection providing, maintaining and safeguarding employment;

■ enhancing skills and capacities relevant to employment in Scotland and assisting persons to establish themselves as self-employed persons there;

■ promoting Scotland's industrial efficiency and international competitiveness; and

■ furthering improvement of the environment of Scotland.

Some £70 million of Scottish Enterprise's grant is directed at Youth Training through Skillseekers and has addressed two strategic objectives

1.2 Scottish Enterprise are funded by the Scottish Executive Enterprise and Lifelong Learning Department, formerly the Scottish Office Education and Industry Department (the Department), through grant-in-aid and from income generated from their own business such as rents, interest, dividends, loan repayments and asset disposals. In 1998-99, 32 per cent of the grant-in-aid of £393 million was devoted to training activities, and within this, £79 million was spent on youth training including £69 million delivered through a programme called Skillseekers.

1.3 In 1995 Scottish Enterprise published their Strategy for the Scottish Enterprise Network. This set out seven objectives around which their efforts were to be organised (see Box 2). Four objectives relate to the performance and scale of business. The other three objectives relate to strengthening factors that promote business competitiveness. The Skillseekers programme has the underlying aim of supporting the success of this broad based strategy which is designed to make

Scotland a competitive economy and location. In January 1999 Scottish Enterprise launched a new Strategy for Scotland which embraces Skillseekers but this new strategy falls outwith the scope of this study.

Scottish Enterprise Strategic Objectives 1995 to 1999

Box 2	
Performance and Scale of Business Base	**Critical Factor Conditions**
Development and growth of existing businesses	Skills and Knowledge
New Businesses	Physical Business Infrastructure
Inward investment	Access to Opportunity
Exports	

Source; Scottish Enterprise The Network Strategy

1.4 Of the £69 million expenditure on Skillseekers in 1998-99, £63 million was devoted to meeting the 'Skills and Knowledge' objective of improving Scotland's skills base to increase competitiveness. The remaining £6 million of Skillseekers expenditure was directed towards the strategic objective for 'Access to Opportunity', aimed at enhancing employment opportunities for disadvantaged individuals, groups or communities. Resources devoted to Access to Opportunity, including £9 million spent outside of Skillseekers, provide support for more basic learning.

Scottish Enterprise deliver Skillseekers through contracts with LECs

1.5 The Department delegate authority for operating expenditure programmes to Scottish Enterprise. Scottish Enterprise directly fund operations and projects of a broad or strategic nature including Skillseekers, but deliver them through contracts with 13 LECs. This allows decisions concerning economic, environmental and training developments to involve local and business communities. The LECs are companies limited by guarantee with Boards of Directors drawn primarily from their local business community. Scottish Enterprise and the LECs comprise the Scottish Enterprise network.

1.6 The accountability responsibilities for Skillseekers are set out in Figure 1, and the pattern of spending on Skillseekers across LECs is shown in Figure 2.

Figure 1

Responsibilities and Accountability for Skillseekers

Flow of Funding

Accountability

Parliament

Minister for Enterprise and Lifelong Learning

Scottish Executive Enterprise and Lifelong Learning Department

Role: to set the financial, managerial and operational framework for Scottish Enterprise

Grant-in-Aid

Scottish Enterprise Internal Audit Financial Monitoring and Evaluation

Scottish Enterprise

Role: to ensure National Training Programmes objectives and targets are met.

Performance Measurement Training Evaluation Network Development Process

LEC Business Plan

Operating Contract

Monthly Financial and Management Information

13 Local Enterprise Companies

Role: to assess local training needs and contract for Youth and Adult training provision through the Skillseekers programme.

Training Contract

Training Providers/Directly Contracted Employers

Role: to deliver Youth Training Programmes including Skillseekers training to 16-24 year olds

Source: National Audit Office

11

Figure 2

Expenditure on Skillseekers by LEC area 1998-99

Moray Badenoch &
Strathspey Enterprise (MBSE)
£0.9 million

Grampian Enterprise
Limited (GEL)
£5.1 million

Scottish Enterprise
Tayside (SET)
£5.4 million

Fife
Enterprise (FE)
£9.0 million

Lothian & Edinburgh
Enterprise
Limited (LEEL)
£8.4 million

Scottish Borders
Enterprise (SBE)
£1.0 million

Forth Valley
Enterprise (FVE)
£5.9 million

Dunbartonshire
Enterprise (DE)
£3.5 million

Renfrewshire
Enterprise (RE)
£5.3 million

Glasgow Development
Agency (GDA)
£6.3 million

Enterprise
Ayrshire (EA)
£7.1 million

Lanarkshire Development
Agency (LDA)
£9.2 million

Dumfries & Galloway
Enterprise (DGE)
£1.9 million

The expenditure figure for Fife Enterprise includes £3.4 million funding for under 18 year old Fife residents in full time further education in Fife colleges

Source: Scottish Enterprise

Skillseekers is open to 16-24 year olds and certain young people are guaranteed a training opportunity

1.7   Training under Skillseekers is available to young people from the statutory school minimum leaving age of 16 and must be completed by their 25th birthday. To be eligible for a place such young people must not be a student in a higher

education college or attending school or college as a pupil or student full-time, an overseas national, a person on any programme funded by Scottish Enterprise, or in custody.

1.8   Certain eligible persons are guaranteed a training place. Those who are non-employed, who are not in full time education, and have not reached the age of 18 are included in the Guarantee Group. Those who are non-employed, who are seeking entry to Youth Training, and who have reached the age of 18, but have not been able to enter Youth Training because of disability, ill health, pregnancy, custodial sentence, language difficulties or as a result of a care order are included in the Extended Guarantee Group.

1.9   Young people who are not in the guarantee and extended guarantee group, generally young people aged 18-24, may also be offered a place on training. These places are offered on a discretionary basis to meet local circumstances.

Skillseekers has evolved since its introduction in 1991

1.10   Skillseekers was introduced on a trial basis in one LEC in 1991, and rolled out across the network by 1996. The aims of the programme were to:

■   increase the commitment of employers to training and development of young people, thereby ensuring that both the quality and quantity of training available was sufficient;

■   increase the level and volume of skills achieved by young people; and

■   ensure that opportunities were available equally for all young people, including those with special needs.

1.11   Specific objectives were:

■   to empower young people to realise their full potential through training and development; and

■   to develop a more efficient and flexible training market reflecting the demands of young people and employers – and which gave increased value for money.

1.12 A chronology of key guidance to LECs on the development of Skillseekers is set out in Appendix 2.

Skillseekers provides work based training

1.13 Skillseekers provides financial support for young people undertaking work based learning leading to a nationally recognised qualification. Some seventy per cent of Skillseekers trainees are in employment where financial support provides a contribution to the employer either directly or through a training provider. The employer provides on the job training supplemented, where necessary, with arrangements to allow the trainee to attend the off the job training element usually delivered by a private sector training provider or a further education college. Non-employed Skillseekers are trained under contracts with training providers, but receive the same levels of practical work experience and training as those in jobs.

1.14 Skillseekers support is generally paid in stage payments, reflecting the trainee's progress towards the qualification. Stage payments vary depending on the training being undertaken, but three key stages are the start point, interim milestones and achieving the qualification. The largest stage payment (generally 40 per cent of available support) is paid when the trainee achieves the qualification.

## Skillseekers provides training to national standards

1.15 Training is directed towards achievement of Vocational Qualifications, VQs. These are based on national job standards developed and specified by the Scottish Qualifications Authority in association with standard setting bodies such as national training organisations. VQs are unit based, with the number and size of units required to achieve a qualification dependant on the level of qualification and the job focus. There are five levels of qualification ranging from level 1 (performance of a range of variable but routine tasks) to level 5 (performance of complex tasks for which there is a high level of autonomy and responsibility). A unit is achieved when a candidate is assessed as competent in applying all of the skills and knowledge specified within the unit. Appendix 1 describes VQs in more detail.

Since 1991 annual expenditure on Youth Training including Skillseekers has fallen while activity and quality have increased

1.16 Since 1991 Scottish Enterprise have paid £676 million to LECs for Youth Training, including £212 million spent on Skillseekers since 1996/97. Annual expenditure has fallen from £90 million in 1991-92 to £79.5 million in 1998-99. The number of VQs achieved has risen from 6,672 in 1991-92 to 12,493 in 1998-99, and the proportion of trainees with employed status rose from 38 per cent in 1991-92 to 70 per cent in 1998-99 (Figure 3).

Trends in annual expenditure on Youth Training, trainee numbers, VQ's and employed status achieved 1991-92 to 1988-99

Figure 3
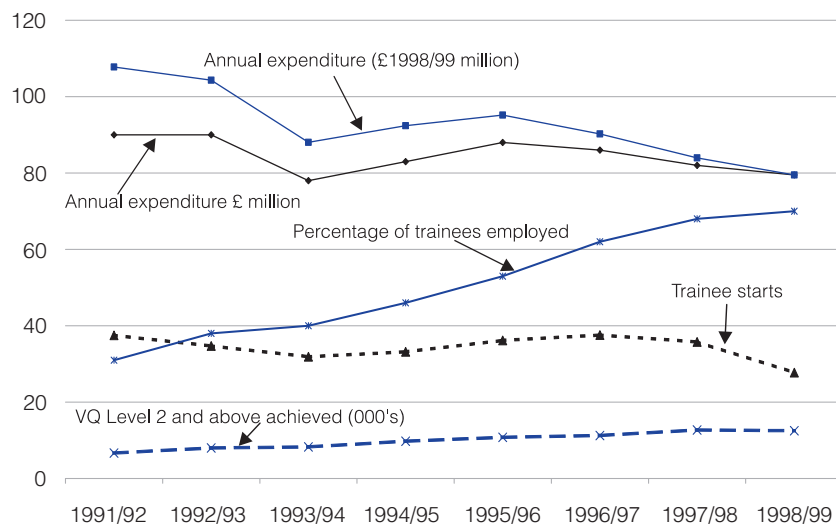
Source: Scottish Enterprise Annual Reports

Scope of our examination and the methodologies employed

1.17 This study examines whether Scottish Enterprise expenditure on Skillseekers training delivered the expected benefits at the minimum public sector contribution. We looked at two specific issues:

■ What achievements have resulted from Skillseekers?

■ How well Skillseekers training has been provided?

1.18 Of the two general strategic objectives to which Skillseekers is directed, the Access to Opportunity objective addresses specific personal and social circumstances that prevent individuals entering employment. These issues are

difficult to define and restrict objective analysis of overall achievements. Therefore, as a first examination of the value for money achieved from Skillseekers, we concentrated on expenditure that met the Skills and Knowledge objective, £63 million in 1998-99.

1.19 The details of our methodology are set out in Appendix 3. The main features are:

- interviews with and file review of papers held by the Department and Scottish Enterprise;

- Visits to each of the 13 LECs;

- Analysis of statistical and financial information held by the Department and Scottish Enterprise;

- Analysis of costs associated with training for a cohort of 1260 trainees who began training courses in 1996/97;

- Consultant's advice from the European Policy Research Centre (EPRC) at Strathclyde University on the key features which might be expected in research to identify the skills needs of a local area;

- Further analysis by PA Cambridge Economic Consultants of evaluation evidence gathered for the Department and Scottish Enterprise.

Part 2: The Achievements of Skillseekers Training

2.1 This part of the report examines whether Skillseekers expenditure incurred by the Scottish Enterprise Network has delivered the benefits expected. We examined the extent to which the national guarantee has been satisfied, the benefits arising from training opportunities offered to those aged 18 and over, how effectively Skillseekers addressed local labour market issues, performance achieved against programme expectations, and the costs and benefits of Skillseekers.

Some benefits are direct but others are indirect and harder to assess

2.2 Providing young people with training, which enhances skills and knowledge attractive to the labour market, provides a wide range of economic and social benefits. Vocational training towards recognised qualifications can make young people more attractive to the labour market thereby increasing employment opportunities. Improvements in individual skills lead to a better trained and more competent workforce, which can improve competitiveness for both individuals and businesses.

2.3 Some of the benefits expected from training for young people have a direct effect while in others the link between cause and effect can be hard to identify. Figure 4 illustrates the range of expected outcomes. The immediate target for young people eligible for the programme is to provide training opportunities that lead to the achievement of qualifications, and progress can be measured in a straightforward way. The impact of the skills gained through training, for example, on unemployment rates is however much harder to identify, because an improvement in skills levels is only one of a range of factors that influence employment trends.

2.4 In examining achievements, we therefore concentrated on areas where there was a clear recognition that Skillseekers would have an impact.

The range of impacts of Skillseekers training for young people

Figure 4

- Workbased job competencies
- Training and Vocational Qualifications
- Transferable skills - enhanced employability
- Greater employment
- Reduced likelihood of unemployment
- Higher productivity for the economy and better pay for the individual
- Reduction in skill shortages
- Greater attraction of inward investment
- Faster innovation in goods and services
- Increased competitiveness of the economy
- Increased economic growth rate
- Reduction int he level of unemployment associated with a sable rate of price inflation
- Greater social inclusion, less crime

Direct effects

Wider effects

Source: National Audit Office

Satisfying the national guarantee

Scottish Enterprise make sufficient training places available to satisfy the national guarantee but a small number of trainees cannot always be offered places within expected timescales

2.5 The national guarantee is an assurance that eligible young people will be offered a training opportunity. LECs are required to make suitable training opportunities available for two types of eligible trainees. Those entering the guarantee or extended guarantee groups for the first time (first-time entrants) and who are seeking entry to Youth Training are entitled to two offers of training opportunities under Skillseekers. Those who return to the guarantee group having previously been employed, completed or left Skillseekers training, or who have rejected two offers without good cause, are classified as returners. Returners are

entitled to one offer of a training opportunity. Training opportunities should generally be offered within eight weeks of the young person expressing a desire to the Careers Service to enter Skillseekers.

2.6   The Careers Service produce a monthly return showing, inter alia, numbers of young people eligible for the guarantee, numbers who have accepted a training place, and numbers awaiting an offer, including those who have been waiting for an offer for eight weeks or more. LECs use the Careers Service returns to monitor the extent to which the training places they have on offer satisfy the aspirations of those in the guarantee group.

2.7   The guarantee covers all young people who fall within the definition of eligibility, irrespective of circumstances. But it is not always possible to find training opportunities for all those eligible. Some young people aspire to training opportunities that are beyond their existing competency and capability levels or are unable to pursue their chosen employment goal due to a lack of suitable job vacancies. Some register for training to retain benefits even though their motivation to enter training may be low. The personal circumstances of some other young people present exceptional difficulties in finding and retaining suitable training places. These issues have been addressed in the report of the Beattie Committee, *Implementing Inclusiveness – Realising Potential* (September 1999) and in the report of the *Excluded Young People's Action Team to the Scottish Social Inclusion Network* (September 1999).

2.8   We found that, although most of those registered accepted offers of training opportunities, a small number could not be satisfied within the expected timescale. Analysis of Careers Service returns showed that, on average, some five per cent of those registered, the equivalent of some 200 eligible young people at any one time, had waited more than eight weeks for an offer. The LECs told us that most of those who were not satisfied were returners.

2.9   Scottish Enterprise are improving their arrangements for monitoring cases where the individual has been waiting more than eight weeks. In June 1999, they issued revised guidance covering the relationship between the LECs and the Careers Service. The revisions are designed to formalise existing procedures to help ensure that LECs adopt a consistent approach to dealing with guarantee group clients. All LECs are required to assign Guarantee Liaison Officers to monitor the take-up of the guarantee, including specific responsibility for ensuring that every eligible young person is both offered and found a suitable SkillSeekers place.

Training opportunities for 18-24 year olds

LECs are expected to tailor the provision of training opportunities for 18-24 year olds to meet local economic needs

2.10 There is no entitlement to training for 18-24 year olds not covered by the extended guarantee under current government policy in relation to Skillseekers. Training may be available outwith Skillseekers for those people in this age group who are eligible to join the New Deal programme, for example those who are unemployed and in receipt of job seekers allowance.

2.11 Scottish Enterprise policy on 18-24 year old training is that LECs are expected to tailor the provision to meet the economic development needs of their area. We found that, generally, the provision of 18-24 year old training by LECs was not supported by a well documented link with analysis of economic development needs. In one LEC a simple limit was applied to the amount of training provision for 18-24 year olds but there was no clear basis for the limit. In two other LECs a cap on the budget allocations for 18-24 year old training had curtailed the provision. A range of Modern Apprenticeships within Skillseekers specifically target this age group and other programmes, such as New Deal, also support training for over 18s. As the level of provision is linked to local priorities, access to Skillseekers may not apply consistently across the Scottish Enterprise area.

The Department are reviewing the age range and eligibility for training young people

2.12 In March 1999 the Department published *Opportunities and Choices* to stimulate ideas and encourage debate about post-school provision for 16-18 year olds. One of the issues raised in the paper is the case for examining the criteria for eligibility for the older age group, in particular 18 year olds within Skillseekers. The paper identified benefits associated with over 18 training, including Skillseekers. These included the provision of employer-based training opportunities to the increasing proportion of young people not leaving school until after 6th year; the need to address issues of under representation and underachievement of post-school learners; and the benefits of supporting more mature trainees who achieve qualifications more quickly. The responses to the consultation will inform future policy on post-school education and training for young people who do not enter higher education from school.

Addressing local needs

LECs are responsible for targeting services to meet local needs

2.13 LECs were established to ensure that local knowledge and experience are involved in decisions concerning economic, social, environmental and training developments at a local level. Skillseekers was introduced to allow Scottish Enterprise to tailor their support for training young people to meet strategic economic development needs. LECs therefore need to develop a clear understanding of skills and demand in their local economy. They also need to implement skills strategies that address the resulting priorities.

2.14 Using the checklist developed by the European Policy Research Centre, we found that LECs collected sufficient information to satisfy most of the elements of best practice associated with assessing local skills needs. We found that each of the LECs undertakes comprehensive analysis of the performance of their local economies and their future prospects to inform their business planning process. LECs also undertake regular skills supply analyses looking, in particular, at specific issues of labour supply, such as the profile of school leaver destinations. Skills supply information was frequently supported by academic research into labour market trends, such as the Strathclyde Labour Market Intelligence & Monitoring Service (SLIMS). The LECs told us that they were in frequent contact with employers and training providers, and one of the results of those contacts was a picture of emerging skills demand.

2.15 We identified two areas where LEC local skills assessments could be improved:

■ LECs did not generally use surveys of local employers to obtain more objective data on skills shortages. Such surveys can be a particularly useful source of information on hidden skill gaps. These occur when employers cannot recruit suitably trained staff and use alternative means to get their work done. Instead LECs relied on local employer contacts and national survey data;

■ LECs did not always take sufficient account of the influence of neighbouring LECs on the supply and demand of skills. Some specific strategies have been devised to address priorities affecting more than one LEC (Figure 5). But, generally, surveys of economic conditions are usually undertaken jointly between the LEC and the local authority for the area in

which the LEC operates, and more attention could be given to changes in economic activity in a neighbouring LEC (such as the closure of a major plant or a major new inward investment although these instances tend to happen at short notice);

Example of strategies devised to address cross-LEC priorities

Figure 5

Cluster Team Addressing Skills Shortages

Cluster teams provide a multi-faceted approach to developing appropriate skills in industries where shortages have been recognised. Teams usually engage the Careers Service, National Training Organisations, training providers, colleges and employers to provide Scottish Enterprise and the network with information on key areas to be addressed in plans.

Examples of Action Emerging from the Electronics Cluster Team

At a National Level: six new national qualifications have been developed and links have been established with the National Microelectronics Institute to ensure work done elsewhere in the UK is reflected in the Scottish Enterprise approach. Scottish Enterprise have also set up a nation-wide supply base forum which has a skills group whose analysis resulted in employers selling training to each other.

At a local level: Renfrewshire Enterprise have developed a post-graduate course for technical call centre operatives with languages; Lanarkshire Development Agency have developed training on the priority areas of electronic debugging; and Lothian and Edinburgh Enterprise are setting up a software academy as a Scotland-wide resource connecting businesses with the training support they require.

Source: Scottish Enterprise

LECs develop skills strategies but the training delivered is constrained by the demand led nature of Skillseekers

2.16 LECs generally used their local skill needs assessments to form skills strategies for their area. Strategies set out objectives and priorities for training funds over a three to five year period. Some LEC strategies identified priority targets for tackling specific training needs in terms of age groups, geographical areas or types of industry. Other LECs took the view that the market should decide the type of training required and set no priorities. Skillseekers is essentially a demand led programme in that it seeks to satisfy individual needs and aspirations within the context of local labour market needs and, in relation to 16 and 17 year olds, provides a guarantee of a training place. It is not always practical, therefore, for LECs to limit the training places available to the priorities within their local skills strategy in respect of young people covered by the training guarantee. Scottish Enterprise pointed out that, in any event, Skillseekers is one of a number of supply side measures LECs deploy to meet their local skills strategies.

2.17 Enterprise Ayrshire's Skills Strategy identified key sectors within their economy in electronics, tourism, engineering and textiles as areas to be developed. We found that between 1996/97 and 1998/99 the main occupational groups for Skillseekers trainees which were supported by the LEC principally covered skilled engineering, retail and clerical. These generic occupational groupings do not adequately describe the precise nature of the jobs for which trainees were training and in the absence of data relating to specific industries classifications we were unable to say how well that Skillseekers provision was addressing their Skills Strategy. However, using surpluses, Enterprise Ayrshire set up three Training Centres for electronics and textiles and the Ayrshire Management Centre. They also used the Access to Assessment Programme to introduce VQs in textiles and European Social Funds to provide other priority training.

Performance measurement

Scottish Enterprise have introduced an Output Measurement Framework to relate inputs and impact

2.18 Our report on Scottish Enterprise Financial Management (HC 667 Session 1995-96) found that management information returns which reported LEC performance to Scottish Enterprise were inconsistent and lacked clarity. We also noted that a review commissioned by Scottish Enterprise had found that performance measurement focused on activities rather than on impacts, that performance measurement guidance was unclear, and that the use of output measures varied across LECs.

2.19 At the time, Scottish Enterprise were developing an Output Measurement Framework to foster a consistent and agreed language of performance assessment and measurement. The framework has a pyramid structure in which the range of inputs and activities translate into intermediate outputs and into a limited number of impact measures, Figure 6.

Figure 6

Scottish Enterprise Output Measurement Framework Pyramid
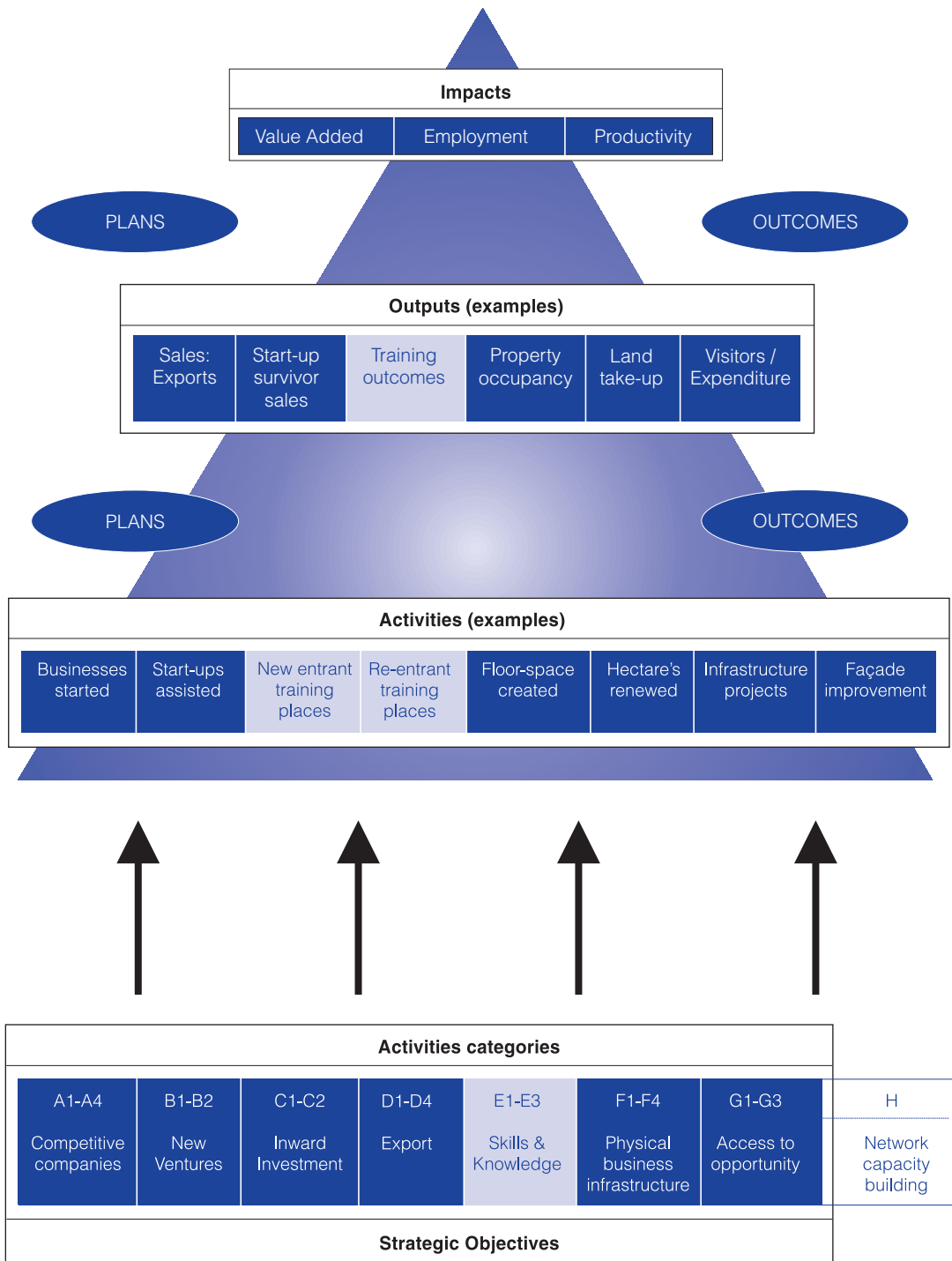
Scottish Enterprise are developing proposals to provide more consistent and reliable information

2.20 We examined whether the Output Measurement Framework provides a source of consistent, reliable and accurate information on performance. We found that, although the framework is now fully implemented, Scottish Enterprise are still addressing weaknesses in the information available to them.

2.21 Information supporting the Output Measurement Framework is drawn from separate manual systems operated by each of the LECs and by Scottish Enterprise. In June 1999 Scottish Enterprise Internal Audit concluded that only two of a sample of four of these systems were adequate, and that Scottish Enterprise could do more to monitor the quality of information provided by the LECs. Action plans addressing specific weaknesses and areas where controls need to be improved have been produced to ensure immediate improvements in the accuracy of information.

2.22 Scottish Enterprise have established a Knowledge Web project to design a new, network-wide means of sharing consistent and reliable information to be fully operational by April 2001. Scottish Enterprise have also introduced a Corporate Training System which will, additionally, provide a useful source of management information on training activity and outcomes. The system will record all activity and VQ outcomes related to all trainees in the network and Scottish Enterprise told us it should provide a comprehensive record from which reliable performance measurement information on Youth Training will be readily accessible.

Performance against expectations

Scottish Enterprise set activity targets for starts and employed status

2.23 Scottish Enterprise use two measures for training activity:

■ the number of young people who start or re-start training (starts); and

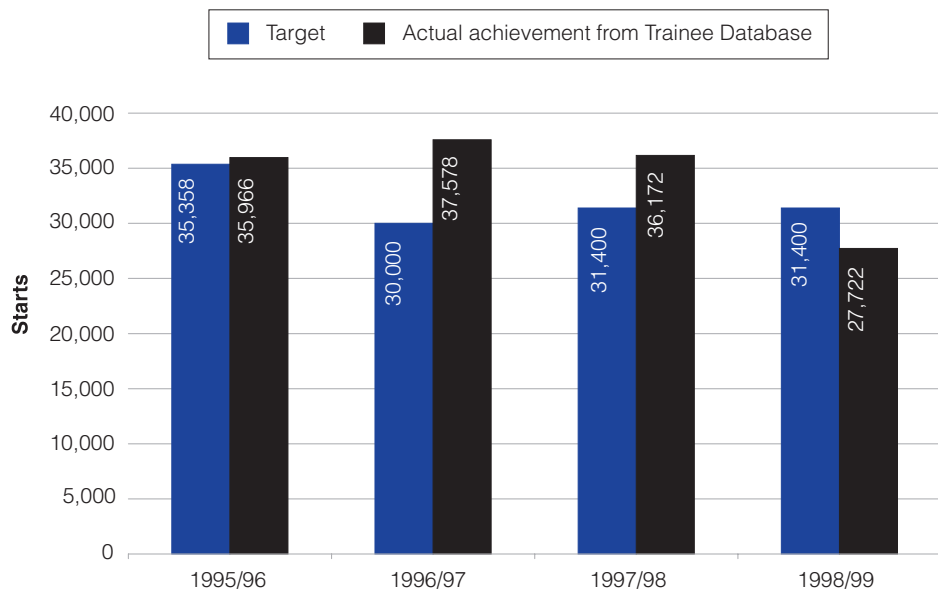■ the proportion of trainees in employment during training (employed status).

We examined evidence on achievements against each of these measures.

Overall the number of trainee starts has exceeded expectations

2.24 Targets set for trainee starts reflect Scottish Enterprise estimates of the proportion of school leavers they expect to join the Skillseekers programme. Between 1995/96 and 1998/99 the total number of starts recorded by the network totalled 137,438, against a total target of 128,158, (Figure 7). Individual LECs did not always meet their individual targets, though we found that this was because demand for guarantee training in the LEC area concerned was lower than expected. Assessing the demand for Skillseekers places has been difficult, particularly in the early years of the programme. LECs were faced with a challenge to ensure the benefits of Skillseekers (i.e. job related training to national standards) over earlier youth training programmes were known to, and accepted by, their client group. Scottish Enterprise undertook an evaluation of the early impact of Skillseekers. The evaluation report concluded, inter alia, that by April 1998 Skillseekers had encouraged employers to participate in youth training, although other influential groups (such as the Careers Service and parents of school leavers) were not fully aware of the programme or were reluctant to become actively involved.

Scottish Enterprise achievements against target for starts

Figure 7

Legend: Target ■ Actual achievement from Trainee Database

|	1995/96	1996/97	1997/98	1998/99
Target	35,358	30,000	31,400	31,400
Actual achievement	35,966	37,578	36,172	27,722

Source: Scottish Enterprise

Targets for employed status trainees have been achieved

2.25   One of the aims of the Skillseekers programme is to encourage private sector involvement by providing more job based training. The proportion of trainees with employed status is an essential indicator of the extent to which this aim is satisfied.

2.26   Scottish Enterprise have recorded significant improvements in the proportion of trainees with employed status. Between 1995/96 and 1998/99 the percentage of trainees with employed status rose from 53 per cent to 70 per cent. We found that each of the LECs had recorded significant improvements against the measure over time, and that progress was generally in line with expectations (Figure 8). Scottish Enterprise told us that, in terms of their strategic objective for Skills and Knowledge, 77 per cent of trainees seeking to achieve VQ level 2 and above qualifications in 1998-99 were employed.

LEC achievement against target – employed status

Figure 8
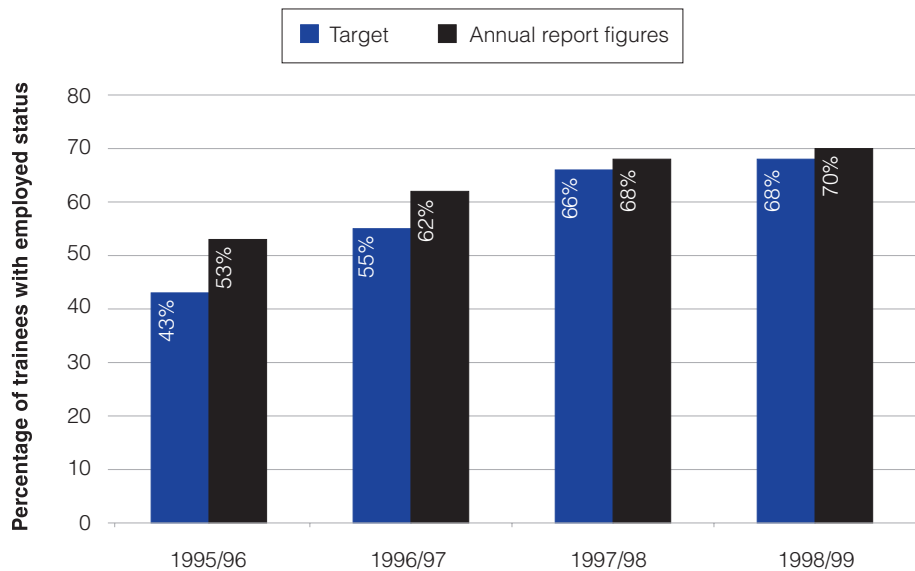
Source: Scottish Enterprise

VQs achieved, continued employment and further training provide measures of positive outcomes

2.27   Scottish Enterprise have identified three measures of positive outcomes from Skillseekers which have a direct impact on their Skills and Knowledge objective:

27

- the number of VQs at level 2 and above achieved through Skillseekers;

- the number of trainees leaving Skillseekers who progress, or are expected to progress, to further skills training; and

- the number of trainees leaving Skillseekers who progress, or are expected to progress into employment.
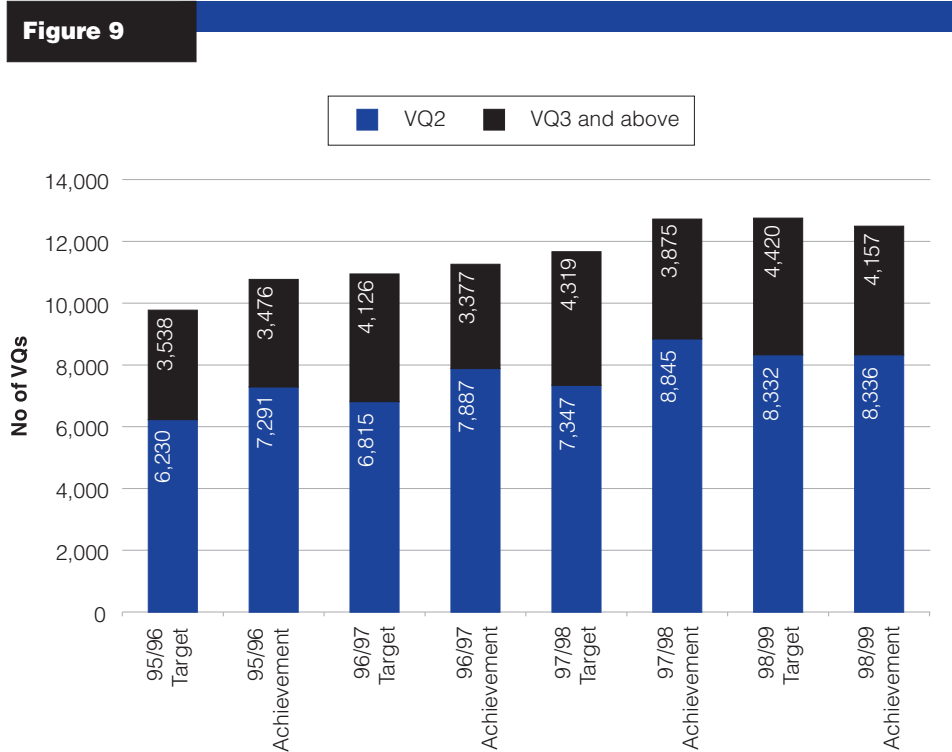
More VQs at level 2 and above have been achieved overall, but the numbers of VQs at level 3 and above have not matched expectations

2.28 Between 1995/96 to 1998/99 the network recorded that 47,244 VQs at level 2 and above had been achieved. Scottish Enterprise annual operating contracts with LECs set out levels of delivery they expect LECs to achieve, based on negotiations that seek to balance LEC business planning forecasts with the budget available. Expectations for Skillseekers are set as targets including numbers of VQs to be achieved at different levels.

2.29 We found that overall the network had achieved outturn levels in line with targets, but the mix of achievements was different to that expected. Some variations would be expected, but we found that over time LECs had consistently under achieved on level 3 and above VQs, compensating for this by over achievement in VQs at level 2. The difference in the mix was greater in earlier years and the numbers of young people achieving level 3 and above VQs has increased in recent years (Figure 9).

2.30 The LECs told us that the targets set for earlier years had not been realistic. VQs at level 3 and above take considerably longer to achieve than those at VQ level 2. The LECs had been making conscious efforts to increase the number of VQ level 3 starts, particularly through the introduction of modern apprenticeships and by starting over 18 year old trainees, but the results took longer to show through against achievement measures. The reduction in the gap within the mix in later years indicated that progress was being made.

LEC achievement against target – VQs achieved at level 2 and above

Figure 9

Legend: VQ2 (blue), VQ3 and above (black)

No of VQs (y-axis, 0 to 14,000)

Category	VQ2	VQ3 and above
95/96 Target	6,230	3,538
95/96 Achievement	7,291	3,476
96/97 Target	6,815	4,126
96/97 Achievement	7,887	3,377
97/98 Target	7,347	4,319
97/98 Achievement	8,845	3,875
98/99 Target	8,332	4,420
98/99 Achievement	8,336	4,157

Source: National Audit Office

2.31 The achievement of higher level VQs is an important indicator of the addition to the skills stock in an area, and underachievement against targets in this area is a concern. Following an initial audit of UK performance against our main competitors in 1994, successive governments have published a series of White Papers stressing the need to attain higher level qualifications generally to maintain our competitive position. In September 1999, the Scottish Executive set a target of having 20,000 Modern Apprentices in training in Scotland for VQs level 3 or above by 2003.

Scottish Enterprise could usefully adopt a wider range of indicators to monitor performance

2.32 Scottish Enterprise use a weighted points system to value volume expectations set out in annual LEC operating contracts. Points are awarded for different types of VQ achievement with VQ level 2 achievements being awarded four points and VQ level 3 and above achievements being awarded eight points. The points provide a useful base for establishing output based funding prices but Scottish Enterprise do not use the system to monitor LEC performance against contracts.

2.33 The Department for Education and Employment (DfEE) are responsible for Youth Training programmes in England. Although they do not operate the Skillseekers programme, they use a weighting system to monitor VQ achievements which awards points for different levels of VQ. The number of points awarded varies to reflect training priorities and DfEE use the weighted points system to produce a wider range of performance indicators to underpin comparative analysis of achievements in regions, across Training and Enterprise Councils and to monitor the delivery of training against their priorities. There is scope for Scottish Enterprise to compare how Skillseekers is performing against the performance of similar programmes for training young people in England providing the recording and collection of data is on a common basis.

2.34 As an example of the type of comparator that could be established, Scottish Enterprise offered to re-present their volume outputs for 1997/98 in the same terms as DfEE. Consequently, they produced comparative information in terms of output points that they were able to use to produce unit costs per point. This showed that for 1997/98 Scottish Enterprise recorded costs were £1,687 per point while those recorded for England were £1,802 per point. Such comparative information is useful for monitoring and benchmarking purposes.

There are no targets for continued employment and training

2.35 Measuring positive outcomes in terms of continuing employment and further training is necessary to provide assurance that Skillseekers is tailoring training provision to meet strategic economic development needs within the constraints of meeting the training guarantee. Continuing employment provides an indicator that the training provided is contributing to the skills needs of the economy. Continued training indicates that trainees have used the programme to begin a process of lifelong learning necessary to maintain a flexible and self-reliant workforce. Scottish Enterprise have recognised the need to measure these outcomes but they have not quantified expectations of outcomes in terms of targets. We consider that such targets should be set.

Scottish Enterprise make limited use of information on short term achievements

2.36 Scottish Enterprise undertake a regular follow-up survey of all trainees. Questionnaires are usually issued three months after trainees complete their training. Each trainee is asked about their experience on the programme and what has happened to them since training, including questions on employed status and

further training. Such information is helpful, for example, in assessing how far types of VQs, or individual providers, contribute to the success of trainees in the labour market.

2.37 We found that the network made little use of the questionnaire information, although the results of completed questionnaires were collated and fed into a database, which was made available to the LECs through the Scottish Enterprise computer network. LECs told us that because response rates to the questionnaire are generally less than 20 per cent and in some cases as low as 5 per cent, they do not use the information to assist their planning of the programme or to monitor positive outcomes in terms of continued employment or further training. Scottish Executive statisticians also consider that the response rate does not give reliable evidence on which to base planning and Scottish Enterprise are considering ways to improve the response rate to the questionnaire. We consider this work should be a priority, but believe in addition, that there are lessons to learn even from the questionnaire database as it stands.

Our analysis of follow-up data shows positive outcomes have remained static over time

2.38 One possibility is that the low response rate to the questionnaire is associated with some bias in the results. For example, only trainees that are more successful might respond to the questionnaire. Alternatively, those who felt they had been less well served might reply disproportionately. We believe, however, that the number of responses 7,859 (out of 70,000 questionnaires issued for the four years from 1995/96 to 1998/99 (11 per cent)) is sufficiently large to provide a useful indicator of trends, particularly since any bias is likely to be consistent across years.

2.39 We found that in answer to the question what are you doing now? some 56 per cent of respondents claimed they were working in the same job, in a different job, self-employed or in part-time employment. A further 14 per cent were on further training, suggesting that 70 per cent of trainees achieved positive outcomes in the short term. 23 per cent of respondents claimed they were unemployed. This pattern remained static over the period 1995-96 to 1998-99 (Figure 10).

Figure 10								
Trainee Responses *What are you doing now?*								
Year	% in same job	% in different job	% self employed	% part-time	Other training or full-time at college	All employed and in training 1-5	Unemployed	Other
	1	2	3	4	5	6	7	8
1995/96	29	19	2	4	16	70	23	7
1996/97	24	24	1	6	12	68	24	8
1997/98	29	21	1	6	14	71	22	7
1998/99	28	23	<0.5	6	13	70	23	7
95/96-97/98	27	22	1	6	14	70	23	7

Source: Scottish Enterprise follow-up questionnaires

2.40 LECs may be able to use less aggregated data to understand whether this consistency is apparent in all groups of trainees, and make further progress across the LEC network by sharing this knowledge to help achieve growth in positive outcomes.

There may be scope to compare achievements with similar measures for training for young people in England

2.41 DfEE also gather information on positive outcomes through follow-up surveys. There are some differences between the survey methodologies used in England and those employed by Scottish Enterprise. DfEE issue their questionnaires six months after trainees leave the programme, Scottish Enterprise issue theirs after three months. DfEE use a telephone tracking service to encourage an increased response rate, Scottish Enterprise do not. Also there are some differences in the terminology used in questionnaires.

2.42 The differences may limit scope for comparing absolute values but in our view it is not clear that they would affect a comparison of trends over time. DfEE figures suggest that positive outcomes reported by their respondents rose by 3 per cent between 1995/96 and 1997/98. For LECs the comparative figures remained static over the same period..

2.43 Scottish Enterprise are taking action to align the follow-up processes more closely. For example, since September 1999, their surveys are now carried out six-months after training. These steps should improve the basis for comparison of absolute performance between Scotland and England. Meaningful comparison of performance will however have to take into account differences in economic cycles experienced in the different parts of the UK.

Longer term measures of positive outcomes are still to be developed

2.44 Scottish Enterprise have not yet developed either longer term measures of positive outcomes or targets for them. Scottish Enterprise told us that other agencies in Great Britain who operate Youth Training Programmes had not undertaken any measure of outcomes beyond six monthly surveys. Some of the LECs we visited had identified a need for longer term tracking of trainee progress and we agree this would be valuable as a way of measuring cost effectiveness.

The costs and benefits of SkillSeekers

An evaluation of the early impact of Skillseekers found that the Programme had made significant progress

2.45 An evaluation report commissioned by Scottish Enterprise on the early impact of Skillseekers was produced in April 1998. It concluded that Skillseekers had made significant progress towards its aims and objectives. In addition, the consultants carrying out the evaluation concluded that the underlying market failure rationale for Skillseekers was valid – that the labour and training markets for young people could be made to operate more effectively. It was also the consultant's view that the success of the programme to that date should be built upon. In particular, the evaluation evidence showed that:

■ Skillseekers had enabled more young people to acquire relevant and useful skills and was helping young people to obtain jobs;

■ most young people and employers were satisfied with the support they received;

■ Skillseekers had increased the level of training attainments but further performance gains could be achieved;

- Skillseekers had encouraged employers to participate in Youth Training, although others were not fully aware of the programme or were reluctant to become actively involved.

Most Skillseekers trainees would have received some training in the absence of the Programme, but not necessarily towards securing a vocational qualification

2.46 One of the aims of Skillseekers is to increase the number and volume of skills achieved by young people. The evaluation report did not comment directly on the extent to which Skillseekers led to additional training, but there was a range of questions that addressed the issue in a number of ways. The results from the individual questions, which are set out in the following paragraphs, may not be consistent making it difficult to draw clear conclusions.

2.47 The evaluation considered what might happen if the level of funding support provided by Skillseekers was halved. The results of responses from those employers participating in Skillseekers showed that 47 per cent of employers who directly contract with a LEC and 63 per cent of employers who contract with a training provider (comprising 80 per cent of the total number of employers responding) would reduce their existing level of recruitment and training. The extent of this reduction was not systematically quantified, though 18 per cent of employers said they would not have recruited young people at all. The results suggest that Skillseekers has led to increased training by most participating employers.

2.48 The same employers were asked whether they would have recruited and trained young people, and to what attainment level, if Skillseekers did not exist. Participating employers said that 80 per cent of their trainees would have received training, but not necessarily to VQ related standards, in the absence of Skillseekers. Information on the type of training provided in the absence of Skillseekers is not complete. Employers who said that the absence of the programme would have no effect on their recruitment stated that 48 per cent of trainees would have received training to VQ standards. Taking account of employers who would have reduced recruitment in the absence of the programme this figure could rise to 72 per cent if it is assumed that all training would have been to VQ related standards. It is difficult to compare the quality of this training with the broad based training to industry standards provided under Skillseekers which gives all trainees the opportunity to achieve a recognised VQ at level 2 or above.

2.49 The evaluation also sought evidence from employers who did not participate in Skillseekers. The results were that 93 per cent of non-participating employers said they would provide some form of training for 16 and 17 year olds, the guarantee group, but only 39 per cent would provide training related to VQs. The equivalent figures for 18-24 year olds were lower at 84 per cent and 34 per cent respectively. The characteristics of the non-participating employers group differed in some key respects, such as size and sector, from the participating employers, so the former do not, therefore, represent a control group for estimating additionality.

2.50 The evaluation of Skillseekers also entailed a survey of young people who had not joined the programme. 38 per cent of non-joiners in employment were receiving training towards a qualification, compared to young people within Skillseekers all of whom train towards a recognised vocational qualification. Again the characteristics of the non-participating group may be different from those of young people in Skillseekers and do not represent a control group.

2.51 Scottish Enterprise rightly believe that it is inadvisable to rely on any single indicator for additionality of training resulting from Skillseekers. For example Scottish Enterprise point out that questions which explicitly refer to reduced funding from the programme produce a more positive response from employers in relation to additionality of training than results from questions which refer only to the absence of the programme where loss of funding is implicit. Scottish Enterprise believe that participation in the programme generates a more positive attitude from employers to train young people to VQ standards compared with those employers who do not join Skillseekers. Scottish Enterprise also draw attention to the experience of over 60 per cent of those young people not in Skillseekers who do not receive training towards recognised qualifications.

2.52 In our view, the statements made by employers about the extent of training they would carry out in the absence of Skillseekers are of considerable interest and should be addressed further. However, we recognise that it is inevitable that there will be some dead-weight in relation to the training provided by Skillseekers as a result of the guarantee of a training place for young people, and the objective to secure employed status for them with good employers while training. The results achieved in relation to additionality of training may therefore be good in the circumstances, but we welcome confirmation from Scottish Enterprise that they accept the need to continue to examine what scope there is for increasing the additionality of training without compromising the quality of training provided.

Skillseekers delivers a range of labour market benefits for employers, and two thirds of these benefits would not have been obtained without the initiative

2.53 In addition to direct training benefits, Skillseekers generates a number of other benefits associated with training. These may arise because of the way the training is delivered, or because of its quality. The evaluation asked employers about the benefits of participating in Skillseekers. They perceived a range of benefits, the main ones being a more structured approach to training and more motivated and productive young people. Employers said that these impacts tended not to be related to young people only, but in a significant proportion of cases led to employment and productivity benefits in their organisation as a whole.

2.54 The evaluation estimated the extent to which the same benefits would have occurred in the absence of Skillseekers. The results ranged across industrial sectors, from 50 per cent additionality in construction, to about two-thirds in distributive trades and other industries. Across all participating employers, 63 per cent of the associated training benefits were said by employers to have been generated as a result of Skillseekers.

Skillseekers may have created 9,000 jobs for trainees over a two year period

2.55 Skillseekers is not a job creation programme, but the evaluation asked employers for information on employment impact, taking account of trainees who would either have been retained in their existing job or offered a job in the absence of Skillseekers training (deadweight). Employers were also asked how many of the jobs held by trainees would have been otherwise filled, (substitution), and through their employment of Skillseekers trainees, how many jobs would have been lost in competitor firms, (displacement).

2.56 While there are many uncertainties in making such estimates, after taking account of deadweight, substitution and displacement factors, the evaluation estimated that of every 100 Skillseekers trainees in employment, 12 jobs were attributable to Skillseekers. Over a period of two years of employer participation in Skillseekers, this was equivalent to the creation of 9,000 jobs, not taking account of any adverse impact on employment generally in the economy that might arise from financing the costs of Skillseekers through, for example, taxation.

Other measures of cost effectiveness show improvement over time

2.57 The evaluation also calculated a series of cost-effectiveness measures for Skillseekers: annual costs per trainee start, per trainee, and per VQ achieved for three years. The results showed a general reduction in unit costs over the period. But we found that the measures used compared in-year expenditure with activities that could take more than one year to complete. Using our cohort of 1260 VQ level 2 trainee starts from 1996/97 (Appendix 3) we produced significantly lower, and more meaningful, comparative figures.

Enhancing achievements

2.58 Working in conjunction with Scottish Enterprise, the LECs have honoured the guarantee to offer training opportunities to young people aged 16 and 17 years. LECs have also taken steps to ensure that training provision meets local labour market area needs. Targets for training starts and employment placements have been monitored and the number of VQs attained has grown over time. To build on these successes:

- Scottish Enterprise should review their policy on access to Skillseekers training for the 18s and over in the light of the Scottish Executive's policy review, particularly given the Scottish Executive's target to have 20,000 young people in Scotland undertaking Modern Apprenticeships at VQ level 3 and above by 2003.

- LECs need to consider how their intelligence on local labour market needs can be augmented to take more account of: employers' views on skills shortages; labour market conditions and prospects in neighbouring LEC areas; and of possible demands for training from those currently in the economically inactive population;

- Scottish Enterprise and LECs should consider how skills strategies balance their aspirations for local economies with training requirements on LECs which are demand led;

- Scottish Enterprise should complete its work to ensure performance across the LEC network is measured on a consistent, reliable and accurate basis;

- we consider that Scottish Enterprise should continue to develop their weighted points system. This would enable them to improve monitoring of performance by improving the focus on LEC achievements against expectations set out in operating contracts, such as the level of achievement across different levels of VQ

- Scottish Enterprise should review the case for targets for continued employment and further training. Existing follow-up information on trainees, and the collection of better and more extended follow-up information is likely to assist in target setting;

- Scottish Enterprise should benchmark LEC performance against England to understand better the reasons for differential performance, and develop action plans to take advantage of any lessons learned; and

- Scottish Enterprise should examine what scope there is to increase the additionality of Skillseekers training without compromising quality provision for young people.

Part 3: The provision of Skillseekers Training

3.1   This part of the report examines whether Scottish Enterprise network expenditure on Skillseekers has been the minimum public sector contribution necessary to provide an appropriate level of training opportunities to meet quality standards across the network. We examined: the adequacy of the Scottish Enterprise price setting process; the relative efficiency of LEC's training delivery; and the quality of training provided.
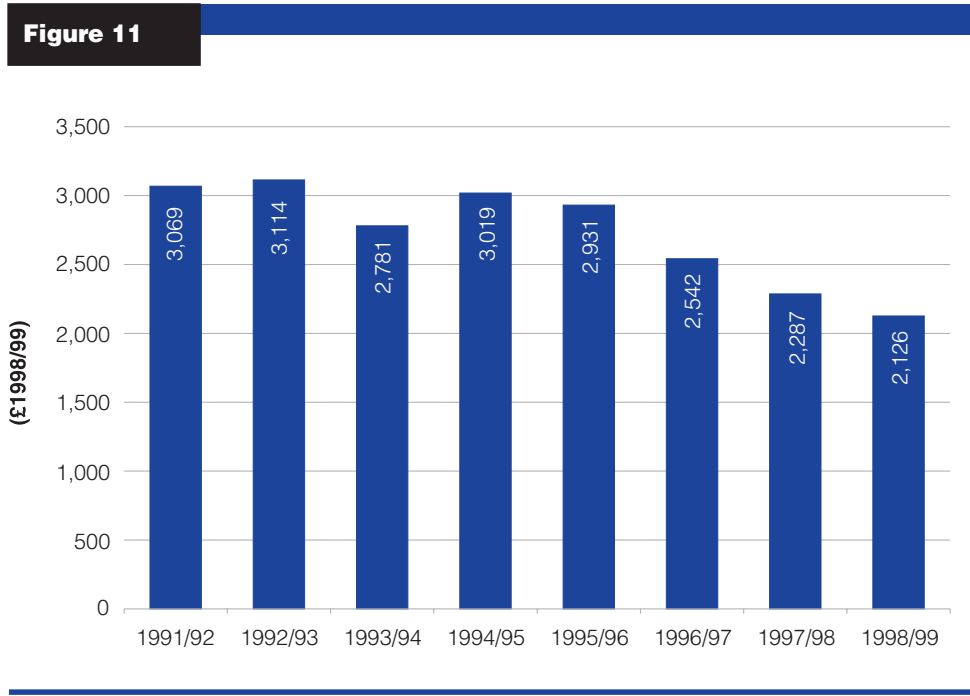
The price paid for Skillseekers

Scottish Enterprise set unit prices for training activity

3.2   Unit prices for Skillseekers are set out in annual operating contracts agreed between Scottish Enterprise and the LECs. For training towards VQs at Level 2 and above, which address Scottish Enterprise's strategic objective for Skills and Knowledge, the prices reflect stage payments for progress made by individual trainees. A LEC may claim: a start payment when a trainee signs an Individual Training Plan (ITP); milestone payments when the trainee achieves specific competencies set out in the ITP; and a final output based funding (OBF) payment when the trainee is awarded the VQ. Unit prices should also allow LECs to earn operating surpluses that they can re-invest in other priority projects.

Scottish Enterprise have reduced prices over time

3.3   The unit prices paid by Scottish Enterprise to the LECs have fallen over time. The annual average Scottish Enterprise spend per trainee fell from an equivalent of £3,069 in 1991/92 (based on prices Scottish Enterprise inherited) to £2,126 in 1998/99 (Figure 11). Between 1996/97 (the first full year of Skilllseekers) and 1998/99 average spend per trainee fell by 16 per cent.

**Spend paid per trainee
1991/92 to 1998/99
(98/99 prices)**

Figure 11

Chart axis label: (£1998/99)

Bar values:
1991/92: 3,069
1992/93: 3,114
1993/94: 2,781
1994/95: 3,019
1995/96: 2,931
1996/97: 2,542
1997/98: 2,287
1998/99: 2,126

Source: Scottish Enterprise

3.4   Scottish Enterprise told us that the price reductions they had implemented represented a step by step approach to achieve lower unit costs for the provision of training. Throughout the period they recognised that the change in the basis of funding from training weeks to trainee progress would have a significant impact on the LECs and on the training providers the LECs used. The prices they set were therefore designed to strike a balance between meeting the guarantee, improving the quality of training, staged reductions in the unit cost of training, the change in the payment base and the cash flow implications for LECs and providers.

Scottish Enterprise use incentives to LECs to ensure the public sector contribution to training is the minimum necessary

3.5   Expenditure on Skillseekers should reflect the minimum public sector contribution necessary to meet the volume of training and quality standards LECs are expected to deliver. But Scottish Enterprise do not set the prices they pay to LECs on the basis of minimum unit prices for delivering different types of training. They consider that, given the range of types and levels of training they deliver, and different levels of contribution required to encourage training in different circumstances, it would not be possible to make an assessment of a single minimum unit price. Figure 12 sets out a range of factors which influence the contribution the public sector might have to make to encourage an employer or provider to provide a training opportunity for a trainee. We consider that it would

be possible for Scottish Enterprise to gather more evidence of minimum necessary public sector contribution using, for example, their experience and through benchmarking.

Factors influencing the minimum contribution provided by Scottish Enterprise

Figure 12	
Cost of Training in different Occupational Sectors	Employers Willingness to Participate
Variations in the Ability Levels of Individual Trainees	Location of Providers
The Availability of Providers	Information on costs
Competition for Training Provision	Availability of other funding (eg Europe)
Quality of Training	Importance of specific industry sectors to the local economy

Source: Scottish Enterprise

3.6   The prices Scottish Enterprise set do however provide LECs with an incentive to minimise their contribution. LECs are expected to generate operating surpluses from training prices which they can re-invest in training and other projects, additional to those directly funded by Scottish Enterprise, which the LEC identify as addressing local priorities. LECs maximise the surpluses they can earn, and can fund more additional projects addressing their priorities, when they minimise the amount they pay employers/providers.

There are few occasions when LECs can use competitive tendering or benchmarking to establish the minimum public sector contribution.

3.7   We examined the steps taken by LECs to minimise payments to employers and providers. We found that Scottish Enterprise operating contracts require LECs to award contracts for services after tender action. But tender action for the provision of training is, in practice, an exception. Most of the training provided arises from negotiations between the LEC and those employers and providers in their area who are willing to participate in the Skillseekers programme. Negotiations with employers and providers seek to balance LEC requirements for the quantity and quality of training required with the providers' capabilities. There are few occasions, therefore, where the LEC can use competitive tendering to establish the minimum public sector contribution.

3.8   The amounts paid by the LECs for the training they purchase have been influenced by the prices Scottish Enterprise have set. Scottish Enterprise expected lower prices paid to LECs could be achieved without the necessity to pass

reductions to employers/providers. LECs were, however, encouraged to seek best value for money in agreeing training contracts whilst maintaining and improving the quality of provision. Scottish Enterprise told us that their guidance was designed to avoid undue pressure on training providers that might threaten delivery. They considered that the level of retained operating surpluses held by the LECs would be sufficient to absorb price reductions.

3.9 We found that, in practice, the unit prices paid to providers had fallen over time, and the reductions were generally lower than those applied to LECs by Scottish Enterprise. The LECs' decisions on prices reflected their views on the extent to which their local training market would bear price reductions taking into account a range of factors, such as the level and quality of training provision available, the demand for Skillseekers places and the profile of the trainee client group.

3.10 The LECs provided us with case examples of the steps they take to minimise prices and to decide where any individual's training fits within the range of unit prices LECs pay employers and providers (Figure 13). But pricing decisions are not supported by well documented analysis of the minimum contribution necessary. In our opinion there is, therefore, no substantive evidence to provide assurance that all payments by LECs to employers/providers were the lowest necessary. We found that LECs had been able to balance maintenance of training infrastructure with price reductions and improving quality.

Examples of action taken by LECs to minimise prices paid for training

Figure 13

Renfrewshire Enterprise's negotiations with providers have been successful in increasing numbers in training (from 1773 in 1995/96 to 2318 in 1998/99) despite a reducing budget. They have increased numbers in training in key occupational groups (eg engineering trainees increased from 80 in 1995 to 529 in March 1999). Renfrewshire also strive to reduce the costs of individual types of training, for example they have replaced college based training for agricultural trainees with work based distance learning using another provider thus saving on travel and subsistence costs.

Lanarkshire Development Agency's Skillseekers programme is based on a system of open licences. This allows training provision to be driven by the market and allows the LEC to replace providers with better alternatives who can increase the level of employed status trainees and increase the level of VQ achievement at lowest cost. They have increased employed status from 48 per cent in 1995 to 72 per cent in 1999 and the proportion of Skillseekers working towards VQ level 3 and Modern Apprenticeships has increased from 33 per cent to 55 per cent over the same period. In addition, they have made significant changes in type of training delivered in line with their local skills strategy. Lanarkshire also strive to reduce their contribution to training, for example payments made in a number of non-priority sectors have fallen significantly over the last 4-5 years.

Source: Local Enterprise Companies

Reductions in prices have produced significant savings but they might have been achieved more quickly

3.11 In the absence of reliable, independent data on the cost of training we have no benchmark against which to measure the scale of savings achieved by Scottish Enterprise. We cannot, therefore, provide positive assurance that expenditure by Scottish Enterprise could not have been lower, or that the savings achieved could not have been achieved more rapidly. However, we calculated that the price reductions Scottish Enterprise had achieved by 1998/99 resulted in expenditure in that year of £25 million less than if prices paid between 1995/96 and 1997/98 had prevailed. This is a significant achievement.

Factors included in the pricing system need to be re-examined

Volumes and unit price rates used to allocate budgets do not reflect the Skillseekers payment regime

3.12 The pricing system uses estimates of training weeks and standard rates for delivering training weeks. This reflects the currency used by LECs to claim payments from Scottish Enterprise under earlier Youth Training programmes, but Skillseekers is based solely on the progress individual trainees make towards a VQ, rather than the length of time they spend on training. As a result, the assumptions on training activity that underpin the pricing model do not reflect the method through which LECs claim funds from Scottish Enterprise and, in our opinion, may distort the allocation of budgets to LECs. Scottish Enterprise told us that because training activity is demand led, and based on individual training plans which reflect the ability and aspirations of each trainee, the level of start, milestone and output based funding payments varied significantly between years. Because of this, they continued to use training weeks as a more consistent and reliable estimate of volumes.

3.13 We consider that the pricing system would be improved if training weeks were replaced by estimates of profiles of activity in terms of expected Individual Training Plan payments, milestone payments and Output Based Funding payments and assumptions on unit price trends. A revised pricing system which was more directly related to the currency on which activity operates would produce more realistic and equitable allocations of funds and provide a more accurate base for monitoring progress. Scottish Enterprise told us that the budget allocation process for 2000/01 is based on estimates of milestones and outputs.

The system does not take any account of local circumstances that cause wide variations in prices paid by LECs

3.14 The pricing system makes no assumptions on the different circumstances faced by individual LECs. The LECs told us, however, that a range of factors relating to local circumstances influence the amount they pay for training. The profile of trainees may include greater or smaller proportions of trainees with different levels of ability and aspirations and the mix is not easy to predict. Training may also be influenced by geographic access to providers and by the number of providers available in the LEC area. Some of these factors are beyond the control of a LEC, and it is unlikely to be cost-effective for all LECs to offer the same range of training opportunities. Consequently, we would expect the pricing system to include some balanced consideration of the impact of local circumstances.

The system makes no assumptions on the level of operating surpluses the LECs should earn
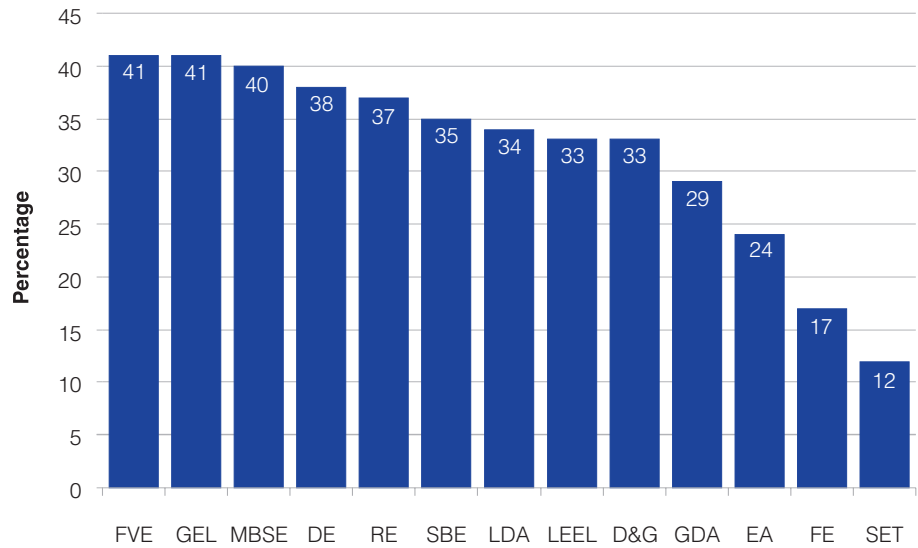
3.15 LECs generate surpluses when they are able to arrange for the delivery of training at lower prices than those paid to them by Scottish Enterprise. Scottish Enterprise have issued guidance which sets an overall ceiling of £28 million on the level of uncommitted reserves for the network. Within that total, a cap on the level of uncommitted reserves was set for each LEC. At 31 March 1998, the level of uncommitted reserves for the network was £13.2 million and the level of uncommitted accumulated surpluses held by LECs fell below the cap set by Scottish Enterprise.

3.16 The Scottish Enterprise pricing system does not make any assumptions about the level of operating surplus that any LEC should make. Analysis of our cohort group found that the difference between amounts claimed by the LECs from Scottish Enterprise for the trainees in the cohort and the price paid by the LECs to employers/providers for those trainees varied significantly. The highest difference recorded was 41 per cent of the amount claimed from Scottish Enterprise while the lowest recorded difference was 12 per cent (Figure 14).

3.17 Scottish Enterprise told us that because our cohort used only VQ level 2 trainees, the average margins we calculated could be misleading. LECs often used higher margin on some types of training to subsidise higher prices to employers/providers in other, priority areas. For example Dunbartonshire Enterprise prices for VQ level 2 training enabled the LEC to meet additional costs of higher Special Training Needs training in their area and Grampian Enterprise used VQ level 2 surpluses to provide higher prices for their priority VQ level 3

Difference between price paid by Scottish Enterprise and price paid by LECs

Figure 14

Percentage (y-axis)

FVE	GEL	MBSE	DE	RE	SBE	LDA	LEEL	D&G	GDA	EA	FE	SET
41	41	40	38	37	35	34	33	33	29	24	17	12

training. They also told us that the results for Fife Enterprise may be distorted because they operate on different payment structures to the other LECs and that difference in the way that LECs pay for trainee travel costs might also distort the data.

3.18 The margin between the Scottish Enterprise price and the price paid to providers is not predetermined so as to provide the maximum incentive for LECs to minimise the public sector contribution towards skillseekers training. The range of difference we found may therefore reflect overgenerous payments to some LECs at the expense of others. Scottish Enterprise told us that factors such as relative efficiency and the way in which individual LECs support training infrastructure affect the gross margins in Figure 14.

3.19 LECs itemise their proposals for using surpluses in their annual business and operating plans. Scottish Enterprise ensure that the proposals are consistent with the overall strategic objectives of Scottish Enterprise and the LECs own priorities for addressing local economic needs. LECs attach highest priority for the use of surpluses to pay for certain essential training infrastructure costs (such as travel and subsistence costs of trainees and training development costs). Surpluses are also used to fund other training projects, such as activities to promote the Skillseekers programme, and to contribute to other non-training projects important to local economic development, such as measures to attract inward investment.

3.20 We found that the proportion of gross surpluses used to fund training infrastructure costs varied between LECs (Figure 15). But, with some exceptions, there was no relationship between LECs earning the highest surpluses and those funding most infrastructure costs through surpluses.

Analysis of LEC operating surplus expenditure 1995/96 to 1997/98

Figure 15
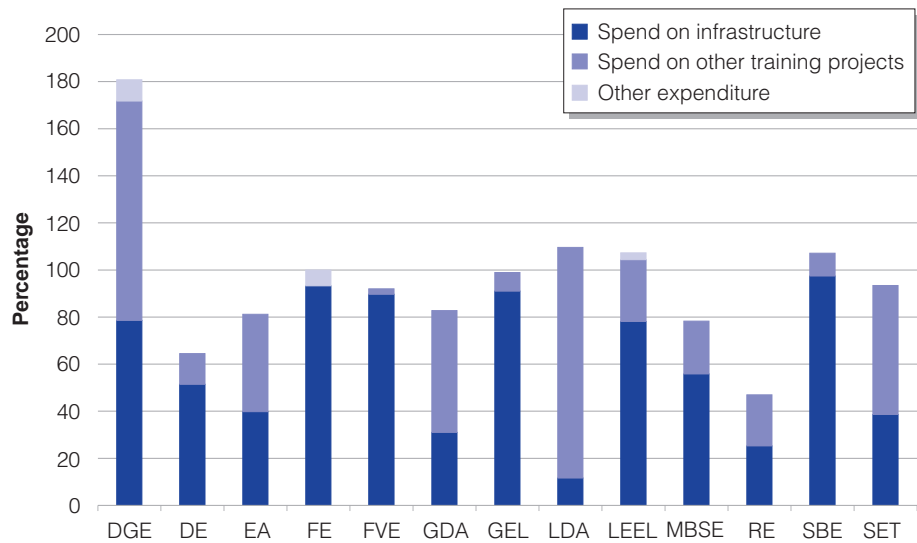
The Figure shows how the surplus generated on SkillSeekers has been used. Where the total is greater than 100 per cent, the LEC has drawn on other reserves and where less than 100 per cent it has taken the unused proportion to reserves.

Source: National Audit Office

Scottish Enterprise is reconsidering its pricing system

3.21 Scottish Enterprise established a working group to consider changes to the pricing system for 1998-99. The group proposed a new model which, inter alia, changed the base for assessing LEC allocations from estimates of training weeks to assumptions based on the level of expected demand for guarantee and non-guarantee training, and caps on percentage changes in LEC budgets. But Scottish Enterprise did not implement the proposals because the results of its application would have resulted in excessive swings in allocations - mostly towards those LECs with more buoyant economies where Skillseekers penetration may be lower than average.

3.22 Scottish Enterprise have now established a further review of the pricing mechanism in the light of a range of factors such as:

- Proposals for changes in policy set out in consultation documents issued by the Department;

- Revisions to Scottish Enterprise Strategy;

- The results of this report;

- Changes to assumptions on

  ❑ European funding

  ❑ Support in areas with buoyant economies

  ❑ Operating Surpluses.

Improvements in management information will provide an opportunity to take forward plans to review the pricing system

3.23 Analysis of the benefits of a revised pricing structure will be improved by new information Scottish Enterprise are gathering on Skillseekers. They have introduced a new Corporate Training System which will replace payment record systems currently maintained and operated separately by each LEC. The system will provide Scottish Enterprise for the first time with immediate access to complete records on training for all trainees. The additional information available will enable Scottish Enterprise to undertake objective analysis of key factors, which we identified as important in developing a revised pricing model for Skillseekers such as:

- profiles of direct costs of delivering different types of training which could inform benchmarking analysis of minimum cost;

- details of commitments in the system and historical trends in achievement which could better inform estimates of future training volumes based on payment expectations;

- cohort groups to test assumptions on average cost and budget allocations that could provide assurance on prices;

■ variations in costs incurred by individual LECs because of differing local circumstances; and

■ the level of operating surpluses earned by individual LECs and from different types of training, to inform assumptions on levels of operating surpluses built into the model.

Measuring relative efficiency

Scottish Enterprise measure relative efficiency in terms of VQs achieved per £ million

3.24 In 1995/96 and 1996/97 Scottish Enterprise have measured relative efficiency achieved by each LEC in terms of the number of VQs achieved for each £ million they spend on training for young people. Data for those years showed a variation in achievement between LECs and the relative efficiency of individual LECs between years (Figure 16). However Scottish Enterprise undertook no analysis of the causes of variation and have not produced similar figures for later years. Scottish Enterprise advised us that meaningful interpretations of comparisons would be difficult due to the staged implementation of Skillseekers across the network. For some LECs 1996/97 was the first full year of Skillseekers whereas in others the programme had been operating for a number of years.

VQs at level 2 and above per £ million measured by Scottish Enterprise

Figure 16
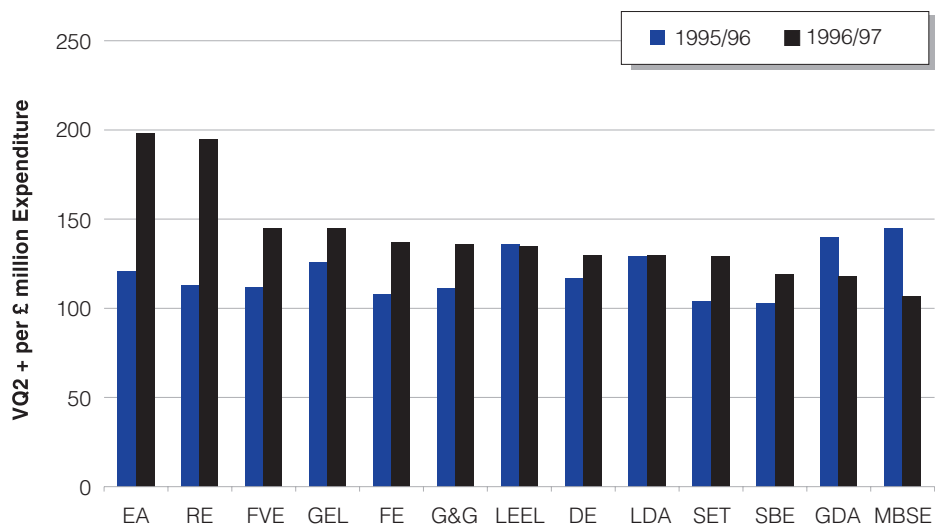
Source: Scottish Enterprise

Scottish Enterprise's measure of efficiency understates achievement

3.25 We found, however, that Scottish Enterprise's calculation of VQs per £ million does not provide a robust assessment of efficiency. Their calculation divides the number of VQs achieved in a single year by expenditure on Youth Training in the same period. But few trainees achieve their VQ in the same year in which training begins. We analysed the time taken to achieve VQs by our cohort group. We found that only 18 per cent of those in the group who achieved a VQ had achieved it in the financial year in which they started training; 44 per cent gained their VQ in the next financial year; and, the remaining 38 per cent did not achieve their VQ until at least the second financial year following training start. Consequently, the measure of in year costs against achievements was not based on a like with like comparison necessary to produce an accurate view of efficiency achieved.

3.26 We calculated the number of VQs achieved by each LEC for each £ million spent by the LEC on the cohort group of trainees, irrespective of the time taken to achieve the qualification. The results (Figure 17) showed a significantly different picture to that reported to the Scottish Enterprise Board. Scottish Enterprise's method of assessment suggested that the average number of VQ level 2s produced per £ million was 122 in 1995/96, and 143 in 1996/97. Our analysis found that the actual number of VQs per £ million for our sample who started training in 1996/97, and whose achievements were spread over three years, was 195.

VQ level2 achieved per £ million calculated by the NAO

Figure 17
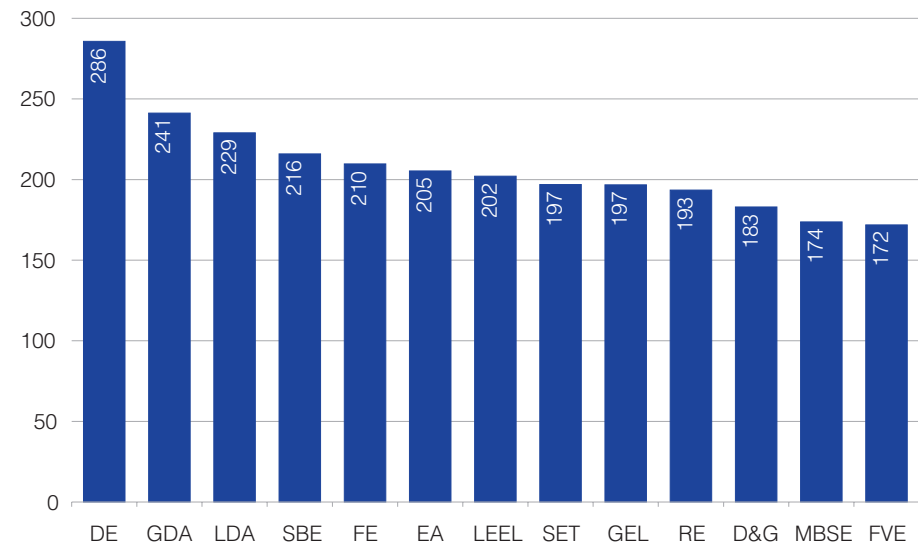
Source: National Audit Office

3.27 This higher level of efficiency as measured properly by a cohort analysis is of some significance. It provides a more accurate assessment of achievement against which decisions on the future funding for Youth Training may be set and for forming judgements on future targets for measuring LEC performance.

## Half of the starts in our cohort had not led to a VQ

3.28 Training provided by the Scottish Enterprise network must satisfy the twin objectives of meeting the national guarantee and addressing trainee aspirations. In these circumstances Scottish Enterprise do not expect that all trainees will achieve qualifications. But the achievement of VQs is an important element of Skillseekers and the output efficiency of expenditure is therefore maximised when all trainee starts lead to a VQ. Scottish Enterprise have introduced procedures to monitor achievement rates. In 1997/98 they asked each LEC to estimate the proportion of trainee starts they expected to achieve VQs within three years and for 2000/1 they have set a target for 50 per cent of starts across the network to achieve a VQ within three years.

3.29 We used data from our cohort sample to examine VQ achievements. We found that 47 per cent of training starts in our cohort of VQ level 2 starts had achieved the VQ and a further 2 per cent were still in training. Expenditure on training that had not produced a VQ amounted to 20 per cent of total expenditure on the group, the equivalent of up to £14 million of annual expenditure on Skillseekers.

3.30 The proportion of trainee starts resulting in a VQ varied amongst the LECs (Figure 18). The highest achievement rate was 74 per cent of trainee starts while the lowest was 39 per cent. The LECs told us that trainees leave for a number of reasons but the factors most likely to influence decisions to leave were the availability of other (higher paid) jobs.

3.31 We found that those LECs recording higher achievement rates were generally those with a larger proportion of 18-24 year old trainees. The LECs told us that achievement rates were likely to be affected by the extent to which training places could be made available to meet the needs and aspirations of trainees, particularly those trainees covered by the guarantee. But, while the demands of the guarantee are such that some LECs faced greater challenges finding appropriate training opportunities for their trainees, we consider that it is important that as many training starts as possible lead to a qualification and that Scottish Enterprise should continue to monitor best practice across the network to ensure that practical solutions are shared by the LECs.

VQ achievement rates by LEC

Figure 18
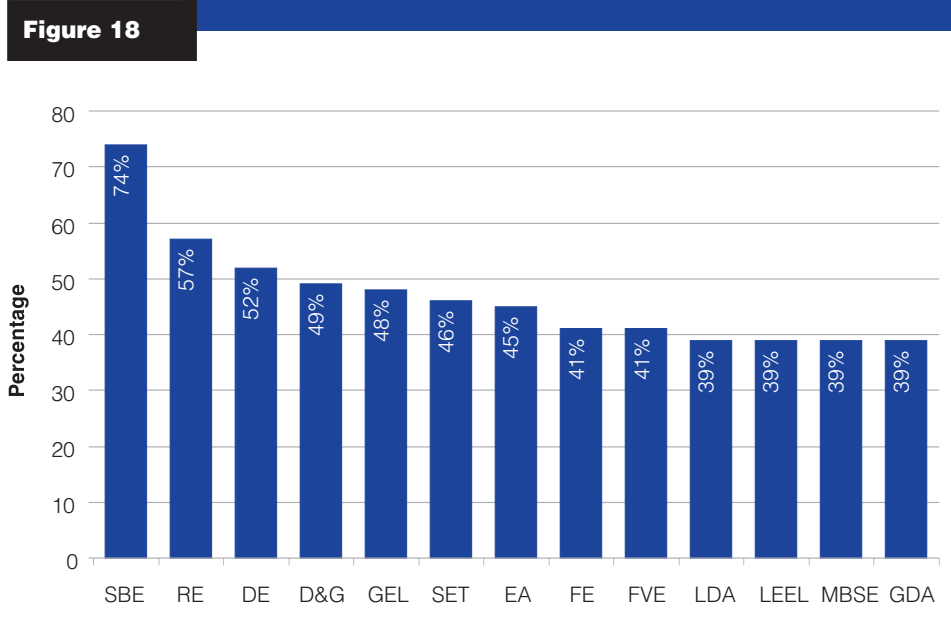
Source: National Audit Office

Explaining performance in individual LECs

3.32 To examine efficiency further, we looked to see whether we could explain variations in training costs across LECs. We wanted to examine cost variations for all individuals in our database, including for those who did not obtain a VQ, but this was not possible because, althoughLECs hold information on milestone payments it is not in a form which could be used to produce a measure of relative efficiency. At the time we carried out our examination this applied to some 800 of the 1260 VQ level 2 trainee starts in our database. Developing an appropriate measure poses significant problems but the introduction of Scottish Enterprise's Corporate Training System will present records in a more useable form.

3.33 Our statistical analysis was therefore restricted to the costs of training for those young people who had obtained a VQ. Figure 19 shows how these costs vary both across LECs and within them. Our analysis took account of the effects of a number of factors that cause costs to vary. They include the cost of training in different sectors and implicitly also its quality; variations in ability of trainees as measured by the time taken to obtain a qualification; and local LEC circumstances, which include influences such as the willingness of employers to participate in Skillseekers, the availability of providers and their location. Appendix 4 gives details.

Cost of achieving a VQ level 2 for 1996-97 starters

Figure 19
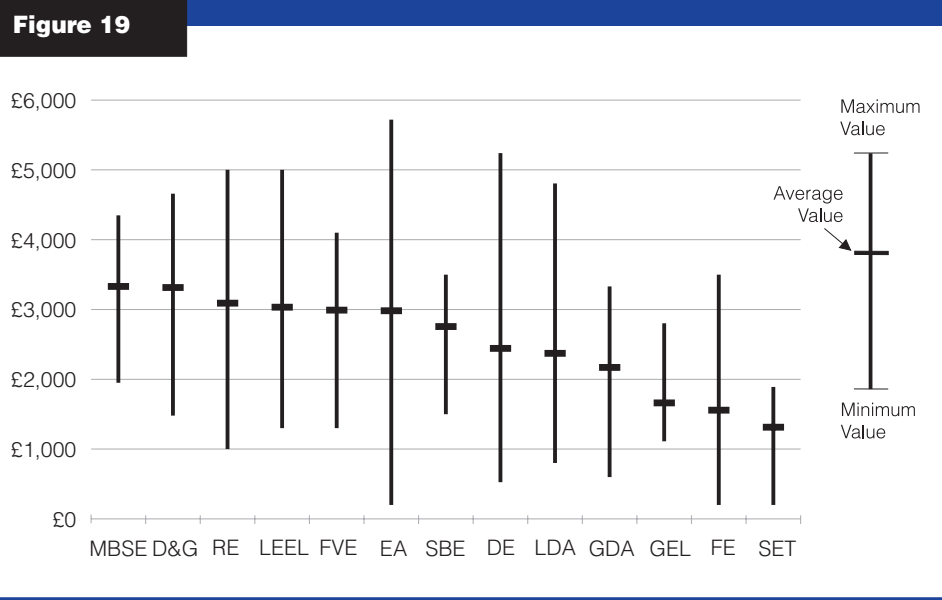
Source: National Audit Office

It is hard to explain variations in the costs across LECs of achieving vocational qualifications

3.34 Our analysis found a relationship between the cost of training an individual who obtained a VQ and the age of the trainee, with cost reducing for older trainees holding other factors constant. Some LEC specific factors were also identified, as were cost variations due to providing particular types of training. The depth and complexity of training varies between occupational sectors and effects the cost of obtaining a VQ.

3.35 Overall, we were able to explain about half of the variability in the cost of obtaining a VQ. The delivery of training is complex and there may well be factors that we were not able to take into account which would provide a more comprehensive explanation of variation in costs of young people obtaining VQ level 2, which account for some 50 per cent of all VQs achieved. Scottish Enterprise agree that there is a need for further analysis of the variation in cost taking into account other factors and the comprehensive data that the new Corporate Training System will provide.

4 per cent of the budget (£3 million) is spent on trainees who make limited progress against their individual training plans

3.36 Some benefits are gained from training that does not lead to a VQ, such as developing competencies and skills, which will aid the trainee's personal development and make them more attractive to potential employers. The longer the trainee remains in training the greater the benefit likely to be gained.

3.37 We found that, for our cohort group of VQ level 2 starts, 4 per cent of expenditure on training that did not lead to a VQ was spent on trainees who left training at an early point in the training sequence. This suggests that over the whole Skills and Knowledge budget for Youth Training, up to £3 million was spent on training where trainees made limited progress against their individual training plans. We found that trainees who had more than one training start made less progress against their individual training plans.

Scottish Enterprise have set in place arrangements for monitoring the quality of training

Scottish Enterprise have a statutory duty to monitor the quality of training

3.38 Section 3 of the Enterprise and New Towns Act 1990 requires Scottish Enterprise to monitor the quality of training provided by its agents (Figure 20).

Scottish Enterprise's statutory duty to monitor the quality of training provided

Figure 20

Where the functions of Scottish Enterprise………… mentioned in section 2(3)(a) or (b) of this Act are carried out through an agent or are delegated to any person, the body…….. shall have the duty (which shall not itself be delegated) of keeping under continuous review the suitability and adequacy of any training provided by that agent, or as the case may be that person (or his agent), in discharging those functions.

Source: Section 3 of the Enterprise and New Towns (Scotland) Act 1990

SQMS sets quality standards for training providers

3.39 A system to evaluate the quality of training provision was put in place in 1993, the Scottish Quality Management System, SQMS. It was the result of co-operation between Scottish Enterprise, Highlands and Islands Enterprise, the

Scottish Education and Industry Department and the Scottish Qualifications Authority. The system includes the criteria by which LECs judge the readiness of organisations to provide education and training programmes.

3.40 SQMS provides a comprehensive auditing system which training organisations can use to evaluate themselves against requirements. The system is designed to be used in a range of ways, such as providing:

- a guide to the quality elements, requirements, and perspectives of agencies and systems;

- a tool for organisational self development and development of quality in provision;

- a way for organisations to marshal evidence for purposes such as accountability; and

- a basis for marketing and promotion, and contracting.

3.41 The system is based on self assessment using internal audits to assess each organisation's compliance with 14 quality standards (Appendix 5). The standards describe quality features or characteristics of management systems and education and training services. The audit requires the organisation to evaluate their systems against each standard in terms of:

- an introduction describing the scope and quality associated with each standard;

- an overview for planning the audit and summarising findings; and

- an audit instrument comprising a list of questions about procedures and outcomes that demonstrate achievement of the standard.

Training providers used by Scottish Enterprise meet SQMS standards

3.42 Scottish Enterprise meet their statutory duty to monitor the quality of training by ensuring that LECs only contract with training providers who meet SQMS standards. Evidence that training providers meet standards is gained through external audits undertaken by auditing bodies authorised by one of the SQMS partners to audit according to principles set out by SQMS.

3.43 The external audit provides a judgement that the organisation's internal audit is accurate and fit for the purpose. The external auditor provides a conclusion as to whether the organisation complies with the standards required by the LECs. An initial external audit is undertaken when the LEC recognises the organisation as a potential training provider and continued compliance with standards is monitored through further annual external audits.

3.44 Until March 1999 LECs were responsible for ensuring providers in their area complied with standards. During visits to all 13 LECs we found that external audits had been undertaken or had been planned to provide assurance on compliance for all providers. We also found that each LEC had compiled audit programmes to ensure providers were visited annually to monitor continued compliance. Where external auditors noted scope for improvement in compliance we found that LECs had developed action plans to monitor the introduction of improvements.

3.45 A new unit, SQMS Scotland, was established after competitive tendering to carry out external audits on behalf of the Scottish Enterprise network from April 1999. SQMS Scotland will act as a single independent unit to ensure a national approach to SQMS auditing and to provide a mechanism for analysing nationally the quality performance of all providers.

Employers and trainees are generally satisfied with the quality of training

3.46 The evaluation of Skillseekers commissioned by Scottish Enterprise provided positive evidence on the quality of training provided. A survey of trainees on the programme found that 79 per cent of Scottish Enterprise trainees assessed the training they received as being good or very good. Similarly 77 per cent of employers involved in Skillseekers who were surveyed responded that the training was good or very good.

Towards greater efficiency

3.47 The LEC network has achieved an increased number of VQs meeting the quality standards at the same time as prices paid to them by Scottish Enterprise have fallen. While acknowledging this achievement, we believe that there are ways in which Scottish Enterprise's pricing system and the monitoring of LEC efficiency could be improved:

- We encourage Scottish Enterprise plans to review their budget allocation process. We consider that the introduction of the Corporate Training System will provide additional information on training volumes and costs which Scotttish Enterprise should use to improve the pricing system by:

  - Producing benchmarking data to provide new evidence of the minimum contribution necessary to deliver different types of training;

  - Providing profiles of expenditure trends to inform estimates of expected volumes and costs, which underpin budget allocation, in payment terms used by the programme;

  - Introducing further analysis of operating surpluses earned by LECs to inform assumptions on surplus expectations to be included in the model.

- Scottish Enterprise should also use their Corporate Training System to calculate VQs per £ million, on the basis of actual costs and achievements to provide a more reliable and transparent measure of relative efficiency.

- We welcome the increased focus on achievement rates Scottish Enterprise are now building into their planning procedures, we expect this to encourage LECs to consider what steps could be taken to improve the completions/starts ratio, drawing on best practice across the network. This will enable more achievable targets to be set for achievement of VQs at each level.

- We also consider that analysis of the efficiency of training achievements would be enhanced by developing measures of the benefit gained from training which does not lead to a VQ and further analysis of the causes of variation in and benchmarking of cost per VQ achieved.

- Scottish Enterprise and the LECs should continue to monitor quality, particularly taking account of employer and trainee views.

Appendix 1

Scottish Vocational Qualifications

1. Areas of competence

The primary purpose of the Scottish Vocational Qualification framework is to create a coherent classification for SVQs and to facilitate transfer and progression, both within areas of competence and between them.

SVQs are based on national occupational standards and Scottish Qualification Authority works with standards setting bodies, including National Training Organisations, to co-ordinate the development and specification of these standards. The qualifications are unit-based and the number and size of units varies between areas.

A unit is achieved when a candidate is assessed as competent in applying all of the skills and knowledge specified within it.

The areas of competence within the SVQ framework result from an analysis of work roles and provide the initial organising structure for competence-based qualifications. Further refinements to the system are being made as the qualifications are developed and routes for progression/transfer are identified.

2. SVQs are split into areas and levels:

The SVQ areas are:

1. Tending animals, plants and land

2. Extracting and providing natural resources

3. Constructing

4. Engineering

5. Manufacturing

6. Transporting

7. Providing goods and services

8. Providing health, social and protective services

9. Providing business services

10. Communicating

11. Developing and extending knowledge and skill

3. There are five SVQ Levels

Level 1

Competence which involves the application of knowledge and skills in the performance of a range of varied work activities, most of which may be routine or predictable. Examples of occupations covered: - Hotel Chambermaid/man, Cleaner, Porter, Vehicle Valeting, and Road Worker.

Level 2

Competence which involves the application of knowledge and skills in a significant range of varied work activities, performed in a variety of contexts. Some of the activities are complex or non-routine, and there is some individual responsibility and autonomy. Collaboration with others, perhaps through membership of a work group or team, may often be a requirement. Examples of occupations covered: - Shop Asst, Warehouse Asst, Admin Asst, and Purchase Ledger Clerk/ess.

Level 3

Competence which involves the application of knowledge and skills in a broad range of varied work activities performed in a variety of contexts, most of which are complex and non-routine. There is considerable responsibility and autonomy, and control or guidance of others is often required. Examples of occupations covered: - Joiner, Bricklayer, Motor Mechanic, Welder, Toolmaker, Asst Accountant, and Office Administrator.

Level 4

Competence which involves the application of knowledge and skills in a broad range of complex, technical or professional work activities performed in a wide range of contexts and with a substantial degree of personal responsibility and autonomy. Responsibility for the work of others and the allocation of resources is often present.

Level 5

Competence which involves the application of skills and a significant range of fundamental principles across a wide and often unpredictable variety of contexts. Very substantial personal autonomy and often significant responsibility for the work of others and for the allocation of substantial resources feature strongly, as do personal accountabilities for analysis and diagnosis, design, planning, execution and evaluation.

Appendix 2

The Development of the Skillseekers Programme

1991

Grampian Enterprise successfully bid to become one of 11 pilot areas in the UK for Youth Training Credits, which they gave the branding *Skillseekers*, Youth Training Credits were designed to address concerns held by Government at the time that the Youth Training Programme was failing in its efforts to drive up the numbers of young people achieving VQ2s through the workbased route.

1993

Scottish Enterprise introduced the Skillseekers programme in 1993 following a Scottish Office review of the then existing programme, Youth Training and the Grampian Enterprise pilot. The introduction of Skillseekers was designed to support youth training to meet strategic economic development needs by:

- encouraging greater employer involvement;

- improving understanding and use of VQs within companies;

- making training more relevant to companies, young people and employees;

- improving guidance and careers advice for young people;

- improving and assuring the quality of training provision;

- ensuring the adequate support of young people irrespective of any special needs; and

- applying pressure to the suppliers of training to make them more sensitive to the needs of employers.

1996-97

Skillseekers applied to all LECs from 1996/97. In setting their budget for that year Scottish Enterprise guidance to the LECs noted:

■ Cost savings in the delivery of Skillseekers and the increased participation of the non guarantee group (ie 18-24 year olds) enable uds to apply a price reduction in the contract between Scottish enterprise and the LECs for the delivery of volumes and outputs, thus maintaining the same level of participation across the network as this year, while continuing to improve upon the outcomes achieved by virtue of the successful implementation of Skillseekers by the LECs. We expect this can be achieved without the necessity generally to pass price reductions to employers/training providers etc., although we would of course encourage the network to continue to seek best value for money in striking training contracts, whilst maintaining and improving the quality of provision. The primary impact of the budget allocations is therefore likely to be a reduction in the rate of generation of surpluses within the youth training area, as compared with those made through efficiency gains to date.

1997-98

Budget allocation letters to LECs for 1997-98 included the following guidance:

■ A significant area which will come under scrutiny in 1997/98 is the participation of 18-24 years, the non guarantee group, in Skillseekers. The proportion of this older age group has grown significantly in the past two years to the extent that 18 per cent of the volume in LEC Business Plan bids was for non guarantee provision. Last year in the budget allocation letters we asked LECs to develop a more targeted approach to generating higher level skills in key industries and companies for non guarantee participants. The SE Board is concerned to ensure that we target resources in line with the network skills objectives and maximise the added value in this discretionary area of youth training. We will be reviewing with LECs over the neat few months the steps they have already taken towards a more focused approach to 18-24 year olds and what further action may be desirable to refine the budget allocation methodology and drawdown arrangements to help meet the agreed objectives.

1998-99

The 1998-99 budget allocation letter included the following with regard to training to meet the Skills and Knowledge objective:

■ We believe that cost savings in the delivery of Skillseekers and the participation of the non-guarantee group ie 18-24 year olds enables us to apply a price reduction in the contract between Scottish Enterprise and the LECs for the delivery of volumes and outputs. We expect that this can be achieved without the necessity generally to pass on the price reductions to employers/training providers although we would of course encourage you to continue to seek best value for money in agreeing training contracts whilst maintaining and improving the quality of provision.

Appendix 3

Study Methodology

Visits to Local Enterprise Companies

We visited each of the thirteen Local Enterprise Companies. The purpose of the visits was to gather information on how each LEC had addressed the following key issues relating to our examination of Scottish Enterprise's expenditure on Youth Training:

- The costs of training

- Operating Surpluses

- The Scottish Quality Management System

- National Guarantee

- Training for Over 18's

- Performance against Target

- ASCETT Targets

- Positive Outcomes

- Costs and Benefits

- Satisfying Local Needs

The examination undertaken at each LEC followed a set programme. Information was gathered through interviews with key LEC staff and by examination of documentation held by the LEC. The results of each visit were recorded in a report sent to the LEC.

Cohort

We used a cohort of trainees to gather original data on the full cost of training a group of trainees. This was necessary to provide a true picture of the cost of training and to supplement unit cost information held by Scottish Enterprise on an annualised basis.

The cohort was drawn as a sample of trainees derived from a database of trainee records held by Scottish Enterprise. The sample was based on the following characteristics:

- Sample derived from total LEC population of all 1996/97 trainees starting VQ level 2

- Sample size took account of numbers of VQ2 trainees at each LEC. SE provided this information.

- Sample size and confidence levels took account of information on cost of training and spread of occupational groupings derived from Preliminary Study work at 3 LECs:

- The total sample used was 1260 trainees across the network. 100 trainees were selected from each LEC with the exception of the two smallest (Scottish Borders Enterprise and Moray Badenoch and Strathspey Enterprise) where a sample of 80 from each was used.

- This sample size allows us to work within 95 % confidence levels of +/- £50.00 on average costs at network level

- This sample size allows us to work within 95 % confidence levels of +/- £150.00 on average costs at LEC or SOC level

We discussed the sampling approach we proposed to adopt with Scottish Enterprise. We provided Scottish Enterprise with the derived sample sizes and the supporting information, which informed our calculation of confidence levels.

Scottish Enterprise approached the LECs and requested additional information, not held in the database, for each trainee in the cohort. The information requested consisted of:

■ Start date

■ Value of payments made to employers/providers

■ Date of payment made to employers/providers

■ Date VQ achieved

■ Amounts claimed from Scottish Enterprise for each trainee, if available.

■ Date left training

Consultants

We engaged two groups of consultants:

The European Policy Research Centre at Strathclyde University provided us with advice on the key features which might be expected in research to identify the skills needs of a local area. They produced a checklist of those key features which we applied during our visits to the thirteen Local Enterprise Companies. (Copies are available from the National Audit Office, 22 Melville Street, Edinburgh EH3 7NS)

PA Cambridge Economic Consultants had undertaken an evaluation of the early impact of Skillseekers for Scottish Enterprise. We engaged PACEC to update some of the information in the original evaluation and to further analyse findings on certain matters relating to our examination.

Appendix 4

Variations in costs of training leading to Vocational Qualifications

Paragraphs 3.32 to 3.35 of the Report describe our finding that only about half of the variations in training costs for trainees in our cohort obtaining VQs can be explained. This appendix provides details of this analysis.

Our cohort analysis (Appendix 3) provided us with 1,355 anonymised detailed individual's training records. Details included the LEC providing the training, the age of the trainee at the start of training, the type of training provided (by occupational group) and time spent on training. Of the training starts in our cohort 497 had achieved a VQ. The other trainees were no longer in training for a variety of reasons including leaving for another job, trainees deciding the training did not meet their aspirations and changes to trainee circumstances.

For each completed VQ, available information included the LEC that arranged the training, which as a dummy variable provided a general measure of factors such as local economic conditions, the willingness of local employers to participate in Skillseekers, the availability of training providers, their location and the degree of competition between them. Information on the type of training provided (by occupational group) provided a measure of the different costs of training in different sectors, again as a dummy variable. Data on the time taken to obtain the VQ is a measure of trainee ability, while information on the age of the trainee at the start of training allowed us to compare costs for completed VQs as between the 16/17 and 18-24 year old age groups.

Without a suitable measure of the benefit of training that did not culminate in a VQ, we were unable to make assessments of the variation in cost of training for trainees who did not obtain a VQ. For those who did achieve a VQ, we carried out stepwise multiple regression. Weights were used to allow for the different sampling fractions used across LECs as described in Appendix 3.

Table 1 sets out our results for factors significant at 95 per cent confidence on a two tail test. These show that half of the variations in costs per VQ are explained by the age of the trainee (with cost falling with higher age); the LEC providing training (as reflected by a dummy variable to represent unknown LEC specific factors and relative to costs incurred by Dunbartonshire Enterprise); time taken to obtain a VQ; and by type of training provided, as measured by Standard Occupational Classification group.

Regression estimates for costs of training for individuals obtaining a VQ

Coefficients	Unstandardised Coefficients	Std.Error	T	Significance
(Constant)	6171.245	370.631	16.651	0
Age at Start (years)	-192.388	17.574	-10.947	0
Scottish Enterprise Tayside	-1422.982	139.601	-10.193	0
Fife Enterprise	-1579.382	164.843	-9.581	0
Grampian Enterprise	-126.873	136.92	-9.326	0
Glasgow Development Agency	-613.722	153.92	-3.987	0
Lanarkshire Development Agency	-383.253	153.462	-2.497	0.013
Dumfries and Galloway Enterprise	547.349	132.875	4.12	0
Renfrewshire Enterprise	341.789	128.74	2.655	0.008
Time to obtain VQ (days)	0.652	0.191	3.413	0.001
SOC 11 Skilled Engineering	315.869	136.966	2.306	0.022
SOC21 Retail	-213.813	94.058	-2.273	0.023

Source: National Audit Office Analysis

Note: I) Adjusted R^2= 0.47   ii) N = 497   iii) LEC specific factors are measured relative to Dunbartonshire Enterprise.

Half of the variation in the database could not be explained. There may well be other relevant factors that we have not taken into account, and these may raise the level of explanation of variations in cost per VQ. The results nevertheless indicate that there is considerable scope for further work to benchmark costs across LECs and with other organisations that provide support for training, such as TECs in England.

Appendix 5

SQMS Quality Standards

1	**Strategic Management.**	The organisation has a clear sense of purpose and direction.
2	**Quality Management.**	A quality system ensures that clients', learners' and staff needs are met.
3	**Marketing**	The needs of the organisation's clients and learners are identified, its education and training services are effectively promoted.
4	**Staffing**	The structure, level, and type of staffing is appropriate for the education and training services provided.
5	**Staff development**	Staff development provision meets organisational and individual development needs.
6	**Equal Opportunities**	Equal opportunities are ensured for all clients, learners, and staff.
7	**Health and Safety**	There is a safe and healthy environment for all learners, staff and visitors.
8	**Premises and Equipment**	Premises, facilities, equipment, and materials are appropriate to the education and training services provided
9	**Communication**	Communication and administration arrangements meet the needs of external bodies, clients, learners and staff.
10	**Financial Management**	The organisation is financially sound and can make a reliable provision.
11	**Guidance services**	The needs of individual learners are identified, action plans/ personal training plans are formulated, progress is reviewed, and support is provided where needed.
12	**Programme Design**	Outcomes and content of programmes are relevant; form and structure encourage access and are responsive to needs; learning and assessment methods are appropriate to the aims and purposes of the programmes.
13	**Programme Delivery**	Training and teaching is purposeful and there is attention to the needs of individuals; the methods used are appropriate, emphasise activity and responsibility, and are varied.
14	**Assessment.**	Assessment instruments allow evidence of all candidates' sustained competence to be gathered; the evidence conforms with the standards required by the awarding body for the award; assessment is internally verified; awarding body requirements for external verification are met; there is an appeals system.

SQMS Guidelines