



National Audit Office

**REPORT BY THE
COMPTROLLER AND
AUDITOR GENERAL**

**HC 1787
SESSION 2010–2012
1 FEBRUARY 2012**

**Department for Business, Innovation and Skills
Skills Funding Agency
National Apprenticeship Service**

Adult Apprenticeships

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National Audit Office

Department for Business, Innovation and Skills
Skills Funding Agency
National Apprenticeship Service

Adult Apprenticeships

Ordered by the House of Commons
to be printed on 30 January 2012

Report by the Comptroller and Auditor General

HC 1787 Session 2010–2012
1 February 2012

London: The Stationery Office
£16.00

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.

Amyas Morse
Comptroller and
Auditor General

National Audit Office

27 January 2012

This report assesses the value for money of the Apprenticeship Programme, focusing primarily on adults (aged 19+), whose numbers have been significantly expanded in recent years.

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Contents

Key facts **4**

Summary **5**

Part One

Background **11**

Part Two

Expanding the Programme **16**

Part Three

Overseeing and managing
the Programme **28**

Appendix One

Study methods **35**

The National Audit Office study team consisted of:

Richard Douglas, Robert Hart, Thabang Nonyane, Joe Perkins, Araz Enayati Rad, Diana Tlupova and Paul Wright-Anderson under the direction of Peter Gray.

This report can be found on the National Audit Office website at www.nao.org.uk/apprenticeships-2012

For further information about the National Audit Office please contact:

National Audit Office
Press Office
157–197 Buckingham Palace Road
Victoria
London
SW1W 9SP

Tel: 020 7798 7400

Email: enquiries@nao.gsi.gov.uk

Website: www.nao.org.uk

Twitter: @NAOorguk

Key facts

442,700

(including 314,400 adults)¹

Number of apprenticeships started in 2010/11

18%

advanced apprenticeships

Increased wage return (average over the period 2004 to 2010)

11%

intermediate apprenticeships

Increased wage return (average over the period 2004 to 2010)

£1.2bn

Programme cost in 2010-11, including £451 million for adults

53,110 starts

in customer service – most popular apprenticeship subject, 2010/11

140 per cent

increase in number of starts, 2006/07 to 2010/11

5 per cent

proportion of employers with an apprentice, 2010

75 per cent

adult success rate, 2009/10

£16 (intermediate level)

£21 (advanced level)

estimated economic returns to every £1 of public spending on apprenticeships, assuming training would not have occurred without public support

¹ All 2010/11 apprenticeship data in this report are provisional. Final figures are being published in early 2012.

Summary

Scope of our report

1 An apprentice performs paid work while receiving training towards a package (a 'framework') of vocational qualifications. The Government has run an Apprenticeship Programme since 1994. The Programme provides public funding to training providers – mainly private firms and further education colleges – to deliver training to support the qualifications within these frameworks. Apprenticeships are available for all full-time employees from the age of 16 upwards. Types of apprenticeship on offer include, for example, engineering, vehicle maintenance and repair, hospitality and catering, retail, and business administration. The main aim of the Programme is to improve business performance and hence economic growth by increasing the skills of the workforce.

2 The Department for Business, Innovation and Skills (the Department) and the Department for Education share responsibility for the Programme, with the former leading on apprentices who are aged 19 and over (adult apprentices). Adults accounted for 71 per cent of the 442,700 new apprentices in the 2010/11 academic year.² The Department works with its partner bodies, the Skills Funding Agency (the Agency) and the National Apprenticeship Service (the Service), which is a part of the Agency but has its own Accounting Officer. The Service has overall responsibility for the management of the Programme, while the Agency supports the Service by providing a range of operational functions, including management of relations with training providers. The total Programme funding amounted to £1.2 billion in 2010-11, including £451million (38 per cent) for adults.

3 This report assesses the value for money of the Apprenticeship Programme, focusing primarily on adults (aged 19+), whose numbers have been significantly expanded in recent years. The report focuses on whether:

- the Department is meeting its ambitions for expanding the Programme and improving quality, while delivering the expected economic benefits (Part Two); and
- oversight and management of the Programme by the Department, Agency and Service is effective (Part Three).

² Financial years include a hyphen (e.g. 2011-12), while academic years include a slash (e.g. 2011/12).

Key findings

Expanding the Programme

4 The Department, its partners, and providers have significantly expanded the overall Programme since 2006, including rapidly expanding adult apprenticeships in the last year, and in challenging economic circumstances. Overall the Programme expanded by 140 per cent in the period 2006/07 to 2010/11 (from 184,400 to 442,700 new apprenticeship starts of all ages). This expansion included an increase of 151,500 new adult apprenticeship starts in 2010/11, occurring when employment overall was not growing. In 2010, 5 per cent of employers employed apprentices.

5 The expansion in apprenticeship places has occurred across all age groups, particularly among employees aged 25+ and in a small proportion of the types of apprenticeships available. To expand and meet skills needs for older workers, the Department, in 2003, removed previous restrictions limiting public funding to those under 25. In addition, the Agency and the Service have promoted apprenticeships, and made it easier for contracted training providers to deliver apprenticeship training. The Department's philosophy is that the system should be free to deliver what is needed by employers and individuals. The result has been many more apprentices aged 25+, accounting for 68 per cent of the increase in apprenticeship starts across all age groups between 2006/07 and 2010/11. Similarly, 84 per cent of the expansion covered just 10 apprenticeship occupations. Expansion of apprenticeships has been more even across regions. In 2007, around half of apprentices in Britain (all ages) were existing employees before they started their apprenticeship. This proportion is likely to have increased since then.

6 Most apprenticeships in England are at a lower level than those in other countries. Only 33 per cent of apprenticeships are at advanced level, compared with 60 per cent in France, for example. These apprenticeships are usually more valuable to apprentices and employers, and the Department aims to increase them in total.

7 Users and inspectors of apprenticeship training are generally positive about its quality, but rapid expansion presents risks that need to be managed. The number of adult apprentices who successfully complete their training has risen steeply, from 47 per cent in 2005/06 to 75 per cent in 2009/10. When surveyed, users of apprenticeships have been positive about their experience. In 2009, 91 per cent of apprentices said they were satisfied with their training. In 2010, 86 per cent of apprentice employers said that vocational qualifications improved their business performance. Because of the time lag in obtaining information on quality, these results pre-date the recent rapid expansion. Ofsted inspections of training providers found that, from 2005/06 to 2010/11, 65 per cent were good or outstanding. Overall, these results

suggest good quality but with room for improvement. A growing area for attention, however, is apprenticeships that are delivered very quickly. In 2010/11, 19 per cent of apprenticeships (34,600) lasted less than six months, with 3 per cent (6,200) lasting less than three. The Agency and the Service are investigating 87 providers of 'short duration' apprenticeships to see whether they are complying with their contractual obligations. If necessary, it will close down that provision. The Department has recently made clear that all apprenticeships for 16–18 year-olds should take a minimum of 12 months, and may extend this to adults. It has commissioned an employer-led review of apprenticeship standards, to report in spring 2012.

8 Public spending on apprenticeships is producing a good economic return, although lower than the return estimated by the Department. We analysed data on the wages received between 2004 and 2010 by employees who had completed their apprenticeship. These employees achieved higher wages than similar employees who had not completed an apprenticeship. In particular:

- Completing an advanced apprenticeship was associated with wages that were 18 per cent higher.
- Completing an intermediate apprenticeship was associated with wages that were 11 per cent higher.

Advanced and intermediate apprenticeships for adults produce economic returns estimated by us at £21 and £16, respectively, (and £18 across all levels) for every £1 of public funding. However, for reasons discussed in paragraph 9, these figures assume all the training would not have occurred without public support, which is optimistic. The estimated returns compare with £24 and £35 (and £28 across all levels) reported by the Department in March 2011. The difference between our figures and those of the Department reflects the sensitivity of the calculations to the underlying assumptions, in particular our respective assessments of the available evidence on the potential wider impact of the training on the productivity of the workforce. The Department has stated that it 'acknowledges the uncertainty around the level of these additional benefits, but believes its estimate is based on the best available evidence.'

9 The Department has not yet assessed the level of 'additionality' delivered by the Programme. Additionality is how far public funding results in training that would not otherwise have occurred. In 2010 the Committee of Public Accounts was critical of the additionality of the former Train to Gain Programme. In response the Department committed to no longer funding training that employers would pay for themselves. The Department assumes that, for economic returns to apprenticeships (paragraph 8), all public funding achieves additionality, but lacks data to support this; therefore any reduction in additionality would result in an equivalent reduction in the economic returns. The Department has evaluation in progress to help measure the level of additionality of the Apprenticeship Programme, with results available in early 2012.

10 While the Department and the Service have targeted some specific sectors, this has not been based on evidence of economic returns. Our analysis of wage premiums shows that apprenticeships in some sectors, including 'distribution, hotels and restaurants', and 'public administration, education and health', yield a good return. There is less evidence of a good return in some other sectors. In December 2011, the Department announced an intention to focus the Programme on areas where apprenticeships bring the greatest returns and wider benefits.

Overseeing and managing the Programme

11 The Department has learned lessons from the Train to Gain Programme (now being wound down) leading to a better managed Apprenticeship Programme. The Agency manages provider contracts nationally, and performance is better with a smaller number of providers operating with centralised contracts. However, the Agency and the Service are aware that significant risks remain with sub-contracted provision and are working together to manage them. The Programme is well coordinated by the Apprenticeships Unit, which supports the two sponsor departments, and the Department oversees the Service and Agency appropriately.

12 Much of the additional funding announced for adult apprenticeships in 2010-11 was spent on other programmes. In reallocating £150 million from Train to Gain to adult apprenticeships in 2010-11 to increase starts by 50,000, the Department overestimated the funding required. The Agency and the Service delivered twice the additional starts (102,800) for a third of the extra funding (£52 million). Using the financial flexibilities allowed, training providers spent the remaining funding on other further education and skills training.

13 While employers potentially have a good choice of frameworks from which to choose, providers have concentrated on delivering a smaller subset of these frameworks. Training providers decide which frameworks to offer in response to local demand, and they concentrate on a subset of frameworks that are delivered in bulk. In 2010/11, 83 per cent of new apprenticeships were in 15 (out of 118) framework subjects. The Service works closely with employers, but it could do more to systematically monitor how well the market meets the needs of employers.

14 The Agency and the Service currently set tariffs without sufficiently robust information on the cost of provision. Funding rates are intended to be sufficient to meet providers' delivery costs. Each apprenticeship framework has a funding rate, based partly on an estimate of the activity needed to train a typical apprentice efficiently. However, the Agency and the Service lack reliable evidence to support the estimate of training costs. This may mean that some frameworks have become more financially attractive to offer than others. The Agency and the Service are not in a position to judge the extent to which providers may be generating significant surpluses or losses due to the rates paid on individual frameworks. The Agency is proposing to simplify the funding rates and increase transparency on adult skills funding from 2013/14.

15 Employers pay apprentices' wages and deliver on-the-job training, but some are not paying the expected contributions towards training providers' costs.

Employers are required to contribute towards the cost of adult apprenticeships, and the funding rates paid to providers assume employers contribute at least half of the training costs, either in cash or 'in kind'. However, evidence suggests that some employers do not pay the required contributions. A 2009 survey, for example, found that 43 per cent of providers do not collect any fees. With full contributions from employers, government funding could deliver more or higher quality apprenticeships for the same cost.

16 The Department has not provided sufficient clarity on the strategic direction of the Programme for adult apprenticeships.

The two departments expect the Apprenticeship Programme to deliver against a diverse range of objectives. However, the Programme still lacks a clear statement of the main, measureable outcomes expected, and which sets out how potentially competing priorities will be managed.

Conclusion on value for money

17 Overall, adult apprenticeships offer a good return for the public spending involved: our model suggests a return of around £18 to £1 of government spending, but this has had to assume that none of the training would have happened in the absence of public support. While the Department has achieved its objective to expand the Programme and has tightened some aspects of its management, it needs to set its sights higher. Our work suggests that the Department could improve value for money significantly, in particular by targeting its resources more on the areas where the greatest economic returns can be achieved, and ensuring that the funding system is informed by robust information on the cost of delivery. The Department and its partners will need to address these issues over the next two years if the Programme is to maximise value for money.

Recommendations

18 We make the following recommendations:

- a** **The Department for Business, Innovation and Skills has not provided sufficient clarity on what success will look like in the medium to longer term.** With the Department for Education, the Department should better define its strategy for the Programme to monitor progress against the outcomes it intends to achieve.
- b** **The Department and the Service have not explicitly targeted those frameworks, levels of qualification and age ranges likely to have most impact on the economy.** The Department needs robust evidence to identify which qualifications are having most impact and where the additionality delivered against public funding is greatest. The Department should use this information to decide where to target its resources. It has recently announced its intention to do so, though has yet to publish details.

- c The Agency and the Service lack robust information on the cost of delivering different apprenticeships.** Alongside the simplification of the tariff mechanism, the Agency and the Service should ensure any changes are based on an up-to-date assessment of the likely cost of provision across the main types and level of framework. They should put in place arrangements to review the tariffs against likely cost trends.
- d The Service does not currently review systematically how well the market is operating to match supply and demand.** The Service should regularly review whether the market it has created and regulates is operating as intended. For example, the Service should review the range of provision on offer, whether it matches employers' needs, and whether sufficient information is available to employers, potential apprentices, and the provider network.

Part One

Background

1.1 Apprenticeships in England, in their current form as a government-organised programme, date back to 1994. Under the Programme, an apprentice performs paid full-time work while receiving training towards a framework of vocational qualifications. Training is delivered by around 900 providers, mainly further education colleges or private training firms. The Government approves the content of the frameworks and funds their external training costs: 100 per cent of the costs for apprentices aged between 16 and 18, up to 50 per cent for those aged 19 or over (with the employer expected to contribute the remainder).

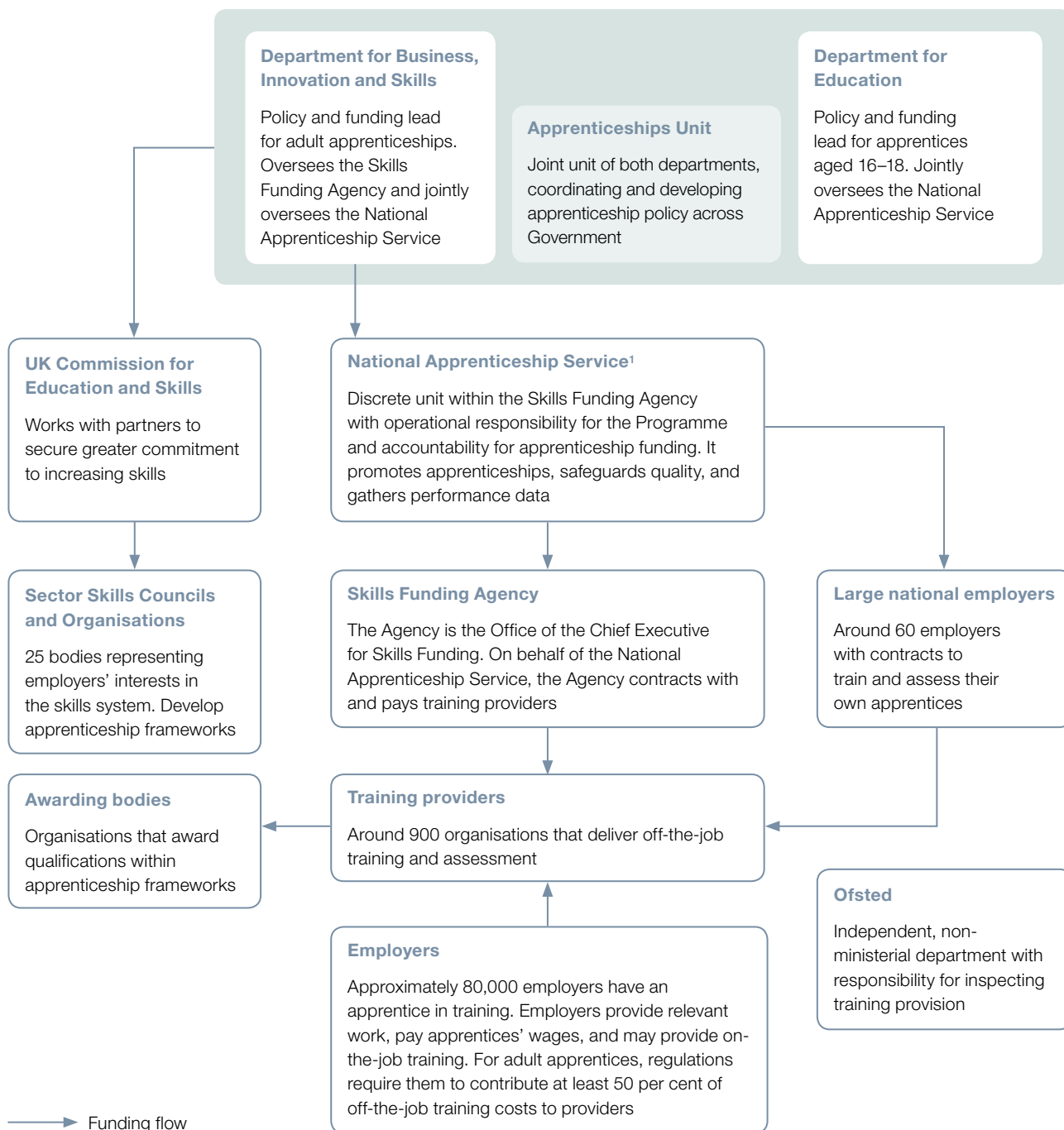
1.2 Responsibility for the Programme is shared between the Department for Business, Innovation and Skills (the Department), which funds adult apprenticeships, and the Department for Education, which funds 16- to 18-year-olds. The National Apprenticeship Service (the Service) has overall responsibility for the management of the Programme and its performance. The Service is a distinct part of the Skills Funding Agency (the Agency), an arm's-length body of the Department. On behalf of the Service, the Agency manages contracts with training providers and provides finance and other back-office services. The roles of these and other key bodies are set out in **Figure 1** overleaf.

What is an apprenticeship?

1.3 An apprenticeship framework is a package of training involving several components (all of which must be passed by the apprentice):

- a competency element, leading to a National Vocational Qualification (NVQ) or similar qualification, which assesses how well the apprentice performs a particular occupation;
- a knowledge element, leading to a qualification such as a diploma, which covers the theoretical knowledge required by an individual in a particular sector; and
- training in 'key' or 'functional skills', leading to qualifications in maths and English.

Figure 1
Key organisations involved in the Apprenticeship Programme



NOTE

1 The National Apprenticeship Service has always been a discrete part of the Skills Funding Agency. Originally, the Chief Executive of Skills Funding was accountable for the Apprenticeship Programme budget, but did not have operational control of the Service. Following a departmental direction in August 2011 the Chief Executive of the Service is accountable for the Programme budget as well as the delivery of the Programme, and the Agency acts on his behalf in respect of the Programme.

1.4 Frameworks are tailored to different occupational sectors, including those traditional to apprenticeships (such as engineering) and to newer ones (such as health and social care). They are also available at different skill levels:

- intermediate apprenticeships (including NVQ Level 2, and equivalent to five A*–C GCSEs);
- advanced apprenticeships (including NVQ Level 3, and equivalent to two A-levels); and
- higher apprenticeships (including NVQ Level 4, and equivalent to a foundation degree).

1.5 In the 2010/11 academic year, 118 frameworks were available. The contents of each framework are developed by Sector Skills Councils and Organisations, which, with input from employers, review the skills needs of different economic sectors.

Funding of apprenticeships

1.6 Public funding of apprenticeships has grown over time (**Figure 2** overleaf). In 2010-11 total spending on apprenticeships (all age groups) was £1.2 billion. Spending on adult apprenticeships totalled £451 million in 2010-11. In comparison, spending on adult further education totalled £1.6 billion, and spending on Train to Gain £774 million. Expected spending on adult apprenticeships rises to £644 million in 2011-12, £698 million in 2012-13 and £726 million in 2013-14.

Programme rationale and objectives

1.7 The Department considers that apprenticeships deliver economic (and social) benefits. It reports that ‘lifetime earnings that flow from [an advanced] apprenticeship are comparable to those flowing from a degree and employers will typically recoup their investment within two to three years.’³ However, without public support it believes employers would invest less in training, and at a level less than economically optimal. It has cited three market failures:

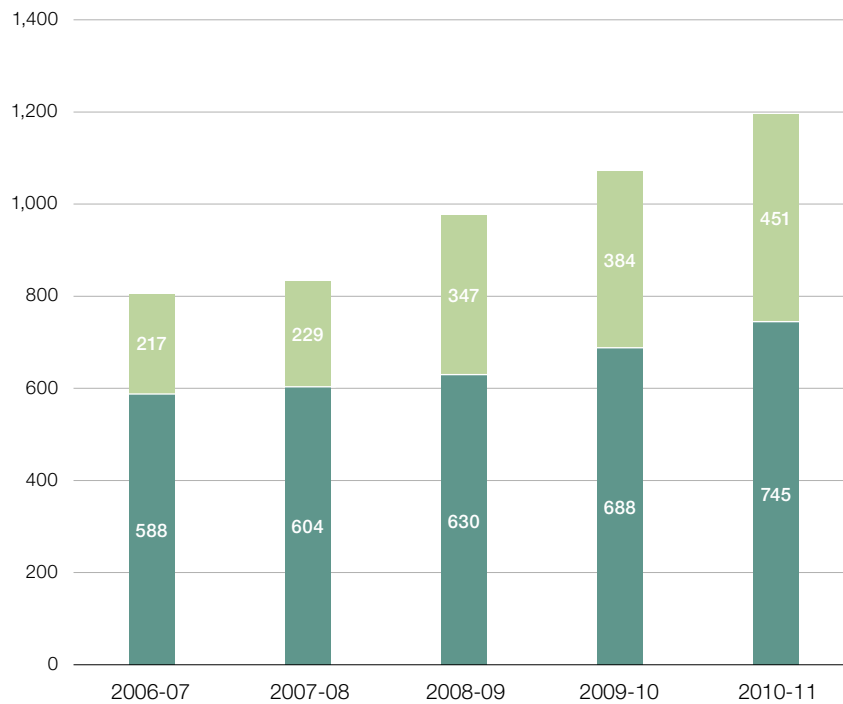
- **Imperfect information.** Employers may not be aware of the full benefits to be derived from training.
- **Access to finance.** Employers may be unable or unwilling to borrow to fund training.
- **Inability to capture the full benefits of training.** Employers may be unwilling to fund training of employees who might then be recruited by their competitors.

³ Department for Business, Innovation and Skills, *Skills for Sustainable Growth*, November 2010.

Figure 2

Apprenticeship Programme delivery costs, 2006-07 to 2010-11

£ million



■ Adult
■ 16-18

	16-18 (£m)	19-24 (£m)	25+ (£m)	Total adult (£m)	Total (£m)
2006-07	588	217	0	217	805
2007-08	604	223	6	229	832
2008-09	630	253	94	347	977
2009-10	688	268	116	384	1,072
2010-11	745	315	136	451	1,196

NOTE

1 Costs are payments made by the Skills Funding Agency to training providers for delivering training. They are not necessarily the same as the cost of training and do not include any payments from employers to providers.

Source: National Audit Office analysis of Skills Funding Agency and Learning and Skills Council accounts

1.8 One of the Department's key objectives is 'to safeguard the UK's long-term growth by promoting skills.' Its evidence suggests the UK workforce is less qualified than those of comparators, particularly at the intermediate and advanced levels. The Department has a number of priorities for the Programme, including:

- **More advanced and higher apprenticeships.** The Department's 2010 *Skills for Sustainable Growth* strategy announced its intention to expand the number of places to meet expected needs within the economy. The 2011 Budget announced an additional £75 million for 10,000 higher apprenticeships.
- **More 16–24 year-old apprentices and new employees.** The 2011 *Skills System Reform Plan* announced that up to 40,000 incentive payments would be made available to small employers to encourage them to take on new employees in this age range as apprentices.
- **Sector specific work.** The 2011 *Plan for Growth* identified the need for more apprenticeships in retail, hospitality, advanced manufacturing, and digital and creative industries.⁴
- **Small and medium-sized employers.** In June 2010, the Secretary of State asked the Skills Funding Agency to refocus £150 million from Train to Gain to the Apprenticeship Programme, to be focused on small and medium-sized enterprises. In December 2011, the Department outlined plans to reduce bureaucracy for employers taking on apprentices.
- **Reducing unemployment among young adults.** The Government allocated an additional £105 million over four years in the 2011 budget to deliver 40,000 apprenticeships for unemployed 19- to 24-year-olds.

This report

1.9 This report examines the overall apprenticeship system, but focuses primarily on adult apprenticeships (aged 19 and over). The report focuses on how far the Programme is delivering the objectives set out by the Department for Business, Innovation and Skills. It assesses whether the Department has learned relevant lessons from Train to Gain, its work-based learning programme for adults, on which we reported in 2009.⁵ There are two main parts to the report:

- Part Two examines whether the Department's ambitions for expanding the Programme and improving quality are being achieved, while delivering the expected economic benefits.
- Part Three examines whether the management and oversight of the Programme is effective.

Our study methods are summarised in Appendix One.

⁴ HM Treasury and Department for Business, Innovation and Skills, *Plan for Growth*, March 2011.

⁵ Comptroller and Auditor General, *Train to Gain: Developing the Skills of the Workforce*, Session 2008-09, HC 879, National Audit Office, July 2009.

Part Two

Expanding the Programme

2.1 This part examines whether the Department and its partners are delivering the objectives of the Apprenticeship Programme to:

- expand the numbers of apprentices;
- enhance the quality of apprenticeships; and
- deliver economic benefits.

Expanding the number of adult apprentices

2.2 The Department and its partners have been expanding the Apprenticeship Programme for some years. In 2006, the Leitch Review, commissioned by the Government to analyse the skill needs of the UK economy, recommended that apprenticeships be significantly increased. In response, the Government stated this would require over 250,000 apprenticeship starts a year.⁶ In 2009 the Department created the National Apprenticeship Service to meet this increase. Between the 2006/07 and 2009/10 academic years, the number of apprenticeship starts (all ages) increased from 184,400 to 279,700 (52 per cent).

2.3 Since May 2010 the Government has announced a further significant expansion. In June 2010 it allocated funding to deliver an additional 50,000 adult apprenticeship starts by the end of the 2010-11 financial year. At the spending review in November 2010, it made the increase announced in June permanent and added a further 25,000 adult starts to the target. This took the total number of additional starts to 75,000 a year by 2014-15.

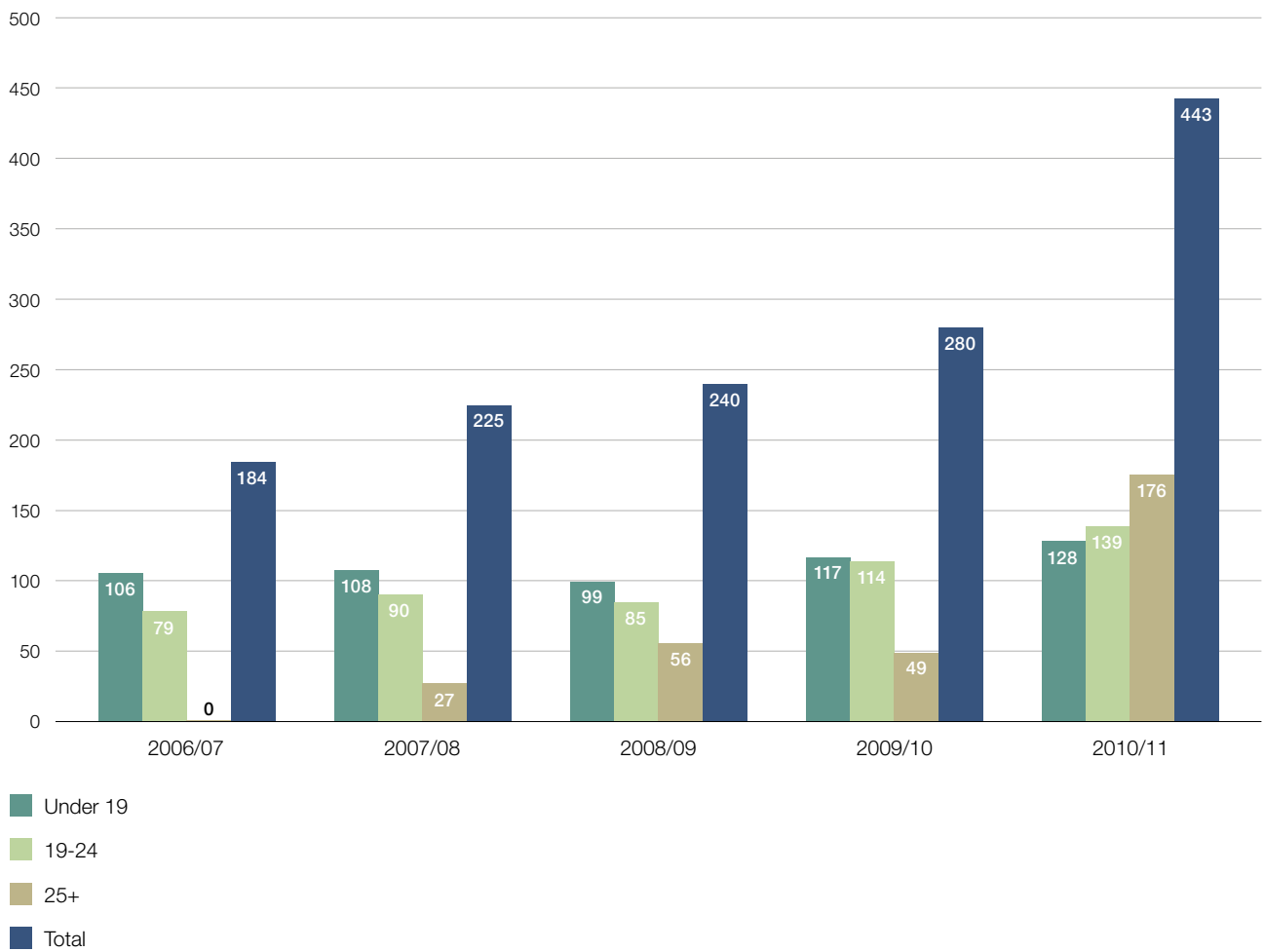
2.4 The Programme has so far exceeded the expansion required since 2010. The objective to increase starts by 50,000 in the 2010-11 financial year was exceeded, with 102,800 being added in the period. Overall the Programme expanded by 58 per cent in the 2010/11 academic year, from 279,900 to 442,700 (all ages) (**Figure 3**). The increase in 2010/11 included 151,500 adults. This increase was achieved in a year when employment overall was not growing.

⁶ Department for Innovation, Universities and Skills, *World Class Apprenticeships*, 2008, p5.

Figure 3

Apprenticeship starts by age group, 2006/07 to 2010/11

Number of apprenticeship starts (000)

**NOTE**

1 Data for 2010/11 are provisional.

Source: National Audit Office analysis of Statistical First Releases, June 2011 and October 2011

How the number in apprenticeships has been increased

2.5 Beyond increasing funding, the Government has intervened in a number of ways to encourage the expansion of apprenticeships:

- **Widening eligibility.** The Government decided in 2003 to widen eligibility for support to include apprentices aged 25 and over, which has accounted for much of the increase.⁷ Between 2006/07 and 2010/11, numbers in this age group rose from 300 to 175,500, accounting for 68 per cent of the growth in all apprenticeships.
- **Direct contact.** The National Apprenticeship Service employs around 150 people in regional sales teams, in particular to help employers organise their first apprenticeship activity and find providers. Overall, the Service is involved in setting up around 10 per cent of all apprenticeships, the rest being directly arranged between employers and providers.
- **Marketing.** The Service promotes apprenticeships through its website and marketing campaigns.
- **Provider flexibility.** The Skills Funding Agency has made it easier for providers to expand apprenticeship numbers. In 2009, it increased contracted providers' flexibility to deliver apprenticeship training in any part of England. From 2011, the Agency has allowed providers the financial freedom to deliver as many apprenticeships as they can (within the value of their adult training budget awarded by the Agency).

2.6 Apprenticeships declined in the UK from the 1970s to 1990s.⁸ The proportion of employers with apprentices in England, 5 per cent in 2010, is still lower than in countries such as Australia (30 per cent) and Germany (24 per cent). The proportion of employees (of all ages) who are apprentices has been lower in England than in a number of other countries – though it is now rising quickly (**Figure 4**).

Where the number of apprenticeships has increased

2.7 Apprenticeships have mostly increased in a small number of subject areas: between 2006/07 and 2010/11 84 per cent of the expansion took place in just 10 frameworks (**Figure 5** on page 20). Among the most popular apprenticeships are generic subjects – for example, customer service (the most popular subject in 2010/11, with 53,110 starts), business administration, and management – that are used in a variety of employment settings.

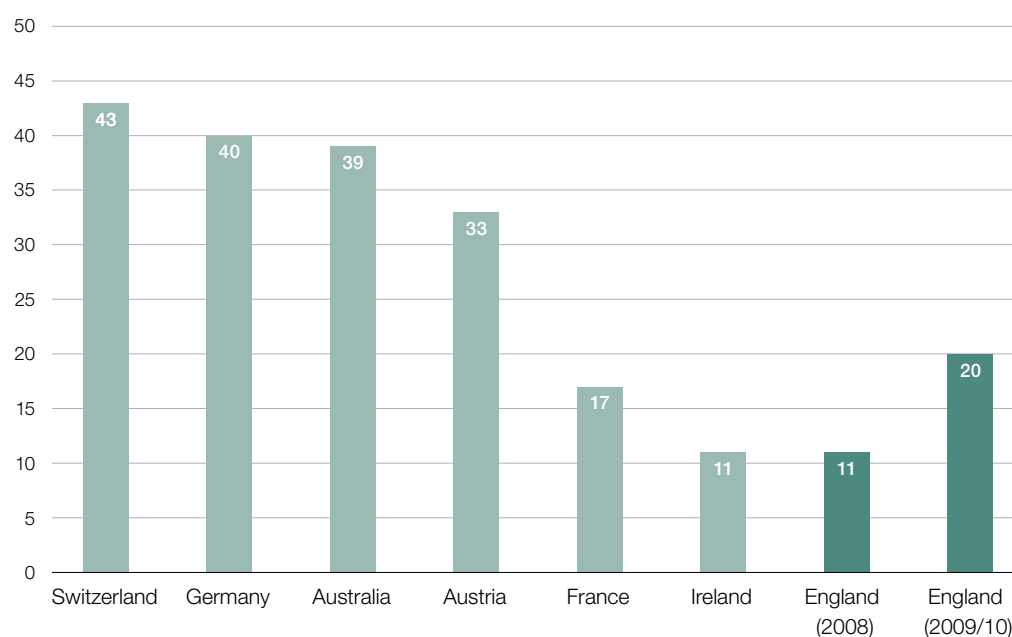
⁷ Department for Education and Skills, *21st Century Skills: Realising our potential*, Cm 5810, July 2003, p81.

⁸ Several factors may lie behind this decline, including: a perception that apprenticeships were not meeting employers' needs; a decline in some industries with an apprenticeship tradition; and the increasing proportion of young people remaining in education.

Figure 4

Incidence of apprenticeships (all ages) in the workforce

Number of apprentices per 1,000 employed people

**NOTE**

1 Data from 2008 and 2009/10.

Source: Hilary Steedman, *The State of Apprenticeship in 2010*, LSE, 2010, p 2; The Data Service, *Statistical First Release*, October 2011; ONS, *Labour Market Statistics*, October 2010

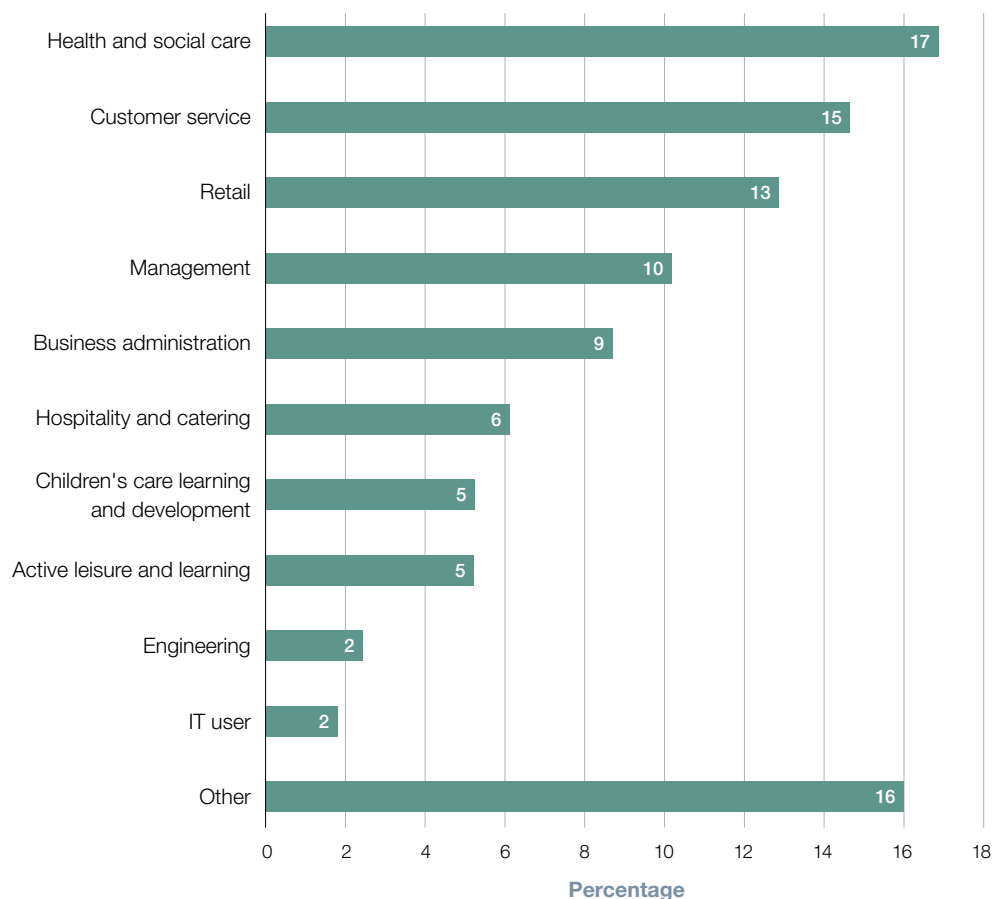
2.8 More apprentices have started in regions with a tradition of apprenticeships, such as the North East and North West (**Figure 6** on page 21). Although it has grown rapidly, London still has the lowest proportion, with starts in 2010/11 accounting for 1.1 per cent of the working population. The Service, working with the Mayor of London, has targeted marketing campaigns on large employers in London.

Progressing to advanced level and higher education

2.9 The proportion of starts for advanced-level apprenticeships (all ages) has gone up slightly over the last five years. In 2006/07 the proportion was 31 per cent, rising to 33 per cent in 2010/11. In 2008, the Department adopted an objective to increase the proportion of advanced apprenticeships, an objective given renewed emphasis since 2010. For several years around two-thirds of apprenticeships have been at intermediate level (equivalent to five GCSEs), with one-third at advanced (equivalent to two A-levels). This contrasts with countries such as France (60 per cent advanced or higher).

Figure 5

Share of growth (all ages), 2006/07 to 2010/11

**NOTE**

1 Data may not appear exact due to rounding.

Source: National Audit Office analysis of Statistical First Release, October 2011

2.10 The proportion of apprentices at advanced level varies markedly between frameworks. In 2009/10, for 24 frameworks 100 per cent of starts were at intermediate level. Our analysis found that of the ten most popular frameworks in the past five years (Figure 5), three had around 90 per cent of starts at intermediate level in 2009/10, including IT user, retail, and hospitality and catering. In contrast, around half of the starts in engineering were at advanced level.

2.11 The Department wants apprenticeships to become an accepted route into higher education. Currently, only a small proportion of advanced-level apprentices take this step. Of those completing in 2005/06, 5 per cent moved immediately into higher education, increasing to 13 per cent of the same cohort after another three years. Of the 2008/09 cohort, 7 per cent moved immediately into higher education.⁹

9 Smith, S. and H. Joslin, *Apprentice Progression Tracking Research Project Report*, University of Greenwich, 2011.

Figure 6
Regional breakdown of apprenticeship starts

Region	Apprenticeship starts, 2010/11	Percentage increase in starts, 2006/07 to 2010/11	Apprenticeship starts in 2010/11 as percentage of total employed (2011)
North West	76,450	137	2.4
South East	56,190	112	1.4
Yorkshire and the Humber	53,920	123	2.2
West Midlands	52,390	160	2.2
South West	47,470	128	1.9
London	40,410	264	1.1
East Midlands	39,380	126	1.8
East of England	38,190	127	1.4
North East	34,000	169	3.0
Other	4,280	62	–
Total	442,700	140	1.8

NOTES

- 1 Apprenticeship starts include all ages. Working age population is defined as 16–64.
- 2 'Other' means location is unknown or outside England.
- 3 Total of Apprenticeship starts, 2010/11, is not exact due to rounding.

Source: National Audit Office analysis of data from Statistical First Release (October 2011) and Office for National Statistics (Labour Market Statistics, October 2011)

Enhancing the quality of apprenticeships

2.12 The Department's rapid expansion of adult apprenticeships could pose a risk to the quality of the Programme unless it is managed effectively. Our report on the Train to Gain Programme which is now being wound down, for example, found it was damaged once eligibility criteria were relaxed to increase numbers quickly. In the case of Apprenticeships, there are risks to the:

- apprentice – if training or quality of employment is poor;
- employer – if training is not well-suited to their business needs; and
- Programme – if the apprenticeship 'brand' is damaged, or if numbers increase in subjects with low economic returns.

We reviewed quality indicators, to assess how well risks are being managed; and the actions taken by the Service, working with the Agency and providers, to ensure apprenticeships are high quality.

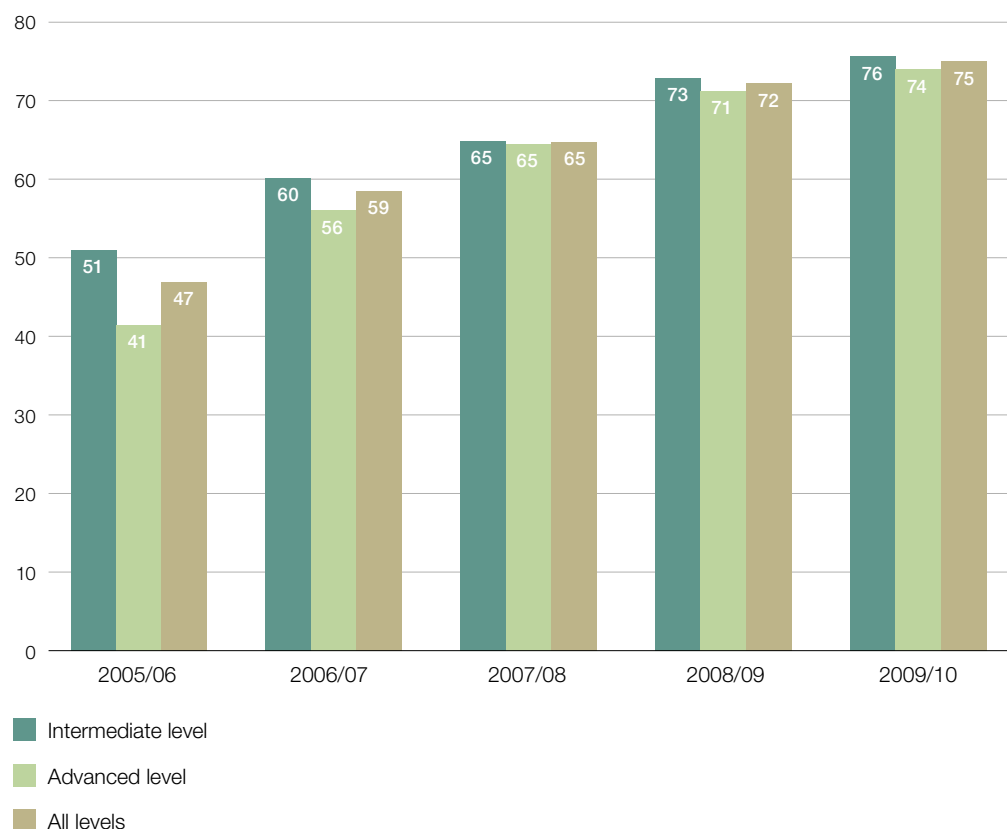
Success rates

2.13 To count as a successful completion in the statistics an apprentice must pass all framework components (externally verified by qualification awarding bodies) within 90 days of their planned finish date. Success rates have climbed steeply, from 47 per cent in 2005/06 to 75 per cent in 2009/10 (**Figure 7**), comparable with most other forms of further education. This improvement partly reflects the Agency setting tougher standards for providers (paragraph 3.15). Since 2005/06 the Agency has also withheld 25 per cent of funding for the vocational element of apprenticeships until apprentices complete the whole framework.

Figure 7

Adult apprenticeship success rates, 2005/06 to 2009/10

Percentage of apprentices who successfully complete



NOTE

1 The Service's provisional management information suggests that the overall success rate increased slightly in 2010/11.

Source: National Audit Office analysis of Statistical First Release, June 2011

User satisfaction

2.14 Surveys suggest apprentices are positive about their experience. A survey of 3,800 adult apprentices commissioned by the Department in 2009 found that:¹⁰

- sixty-seven per cent were very or extremely satisfied with their training, with a further 24 per cent fairly satisfied (making 91 per cent satisfied overall);
- ninety per cent considered that the training was meeting their needs;
- seventy-seven per cent were likely to undertake further training within three years; and
- seventy-three per cent would recommend their training provider.

2.15 A major survey of employers in 2010 was also positive.¹¹ Of the employers with apprentices (adult or young), 93 per cent considered vocational qualifications developed new skills, while 86 per cent believed they improved business performance.

Inspection ratings

2.16 Ofsted inspections of training providers cannot be taken as a simple indication of the quality of apprenticeship training, as ratings cover all providers' 'work-based' training. This might include Train to Gain, for example, as well as apprenticeships. Allowing for this, the message from Ofsted's inspections is generally positive. Over 2005/06 to 2010/11, of those providers inspected that currently offer apprenticeships, 65 per cent were good or outstanding at their most recent inspection. In its annual report for 2010/11,¹² Ofsted was positive on the quality of apprenticeship training, while observing there were some challenges to be overcome. Its key points were:

- The large majority of inspections found that learners were gaining a broad range of both practical and theoretical skills that were directly applicable to their work and their employers' needs.
- The best training was in engineering, and most provision of health, public services, and care training was rated good or outstanding. Elsewhere, the quality was variable and some providers did not identify or support apprentices' need for literacy and numeracy training.
- Most employers provided good support for their apprentices.
- Apprenticeship programmes delivered by employers themselves tended to produce apprentices who were 'job-ready' from early on in their training.

¹⁰ Department for Business, Innovation and Skills, *National Learner Satisfaction Survey: Apprentices Report*, February 2011.

¹¹ UKCES, *UK Employer Perspectives Survey 2010*, January 2011.

¹² Ofsted, *Annual Report: Learning and Skills 2010/11*, November 2011.

Length and content of apprenticeships

2.17 The Service expects most apprenticeships to last between one and four years. There is a risk that shorter apprenticeships do not allow enough time for training and the development of apprentices' skills, although some apprenticeships can be shorter where the apprentices already have some of the required skills.

2.18 More apprenticeships are now taking less time: in 2008/09, 12 per cent (17,500) took six months or less, increasing to 19 per cent (34,600) in 2010/11. A small minority of apprenticeships are even shorter: in 2010/11, 3 per cent (6,200) lasted just three months or less, compared with 2 per cent (3,200) in 2008/09. In four of the top ten fastest-expanding subjects (Figure 5) around a quarter or more apprentices completed in six months or less (2010/11). In one of the fastest-growing subjects, IT and telecoms professionals, over two-thirds (68 per cent) completed in under six months. The growth in shorter-duration apprenticeships may reflect increasing take-up of frameworks which require less training, and growing numbers of over-25s, who may be allowed to complete more quickly owing to their prior experience. The Department intends to publish in February 2012 revised data on the length of apprenticeships.

2.19 In December 2011, the Department announced its intention to strengthen the quality of the Programme. From October 2012, all apprenticeships for 16–18 year-olds will be expected to last a minimum of 12 months, and the Service will consider the implications of extending this to adults.¹³ The Department has also commissioned an employer-led review into apprenticeship standards, due to report by spring 2012.

2.20 The Agency and the Service are investigating 87 providers of 'short duration' apprenticeships to see whether they are complying with their contractual obligations. Where applicable, the Agency will issue breach of contract letters, preparatory to possible contract termination. The Service advised us it will stop what it considers abuse (apprenticeships lasting up to five weeks), but will continue to fund some other training courses that are being delivered in 13 weeks (though these will no longer be branded apprenticeships). Among other measures, the Service will commission the Agency to investigate any framework delivered in less than 70 per cent of the recommended duration, to ensure that significant new learning is being delivered. It will also revise provider contracts to enable the Agency to make immediate withdrawals of funding from providers which fail to meet required quality standards.

2.21 Statutory guidelines introduced in 2011, the Specification of Apprenticeship Standards for England, were intended to address many of these issues by, for instance, setting a minimum of 280 'guided learning hours' of training. It is, however, unclear how the number of guided learning hours will be defined, monitored, and enforced in practice (although guidance is on the Service's website). Provider representatives told us the number of guided learning hours was not relevant to work-based learning, as off-the-job training is usually only a small proportion of the training package, with the majority of time spent on developing and assessing competencies on-the-job. They also told us the requirement was unlikely to be monitored or enforced. The Service says that providers

¹³ Hansard HC, 19 December 2011, col.1112.

do not record how many guided learning hours they deliver, but that apprentices must now declare if they have received the required amount before they can receive their certificate of completion.

Delivering economic benefits

2.22 The Department expects the Programme to increase direct financial returns to:

- apprentices, through higher wages over a lifetime and greater likelihood of being employed;
- employers, through increasing productivity and business performance; and
- the Exchequer, through increasing tax returns, arising from higher wages and profits.

The Department also expects to achieve social benefits from increasing employment, including improving health, reducing crime and greater social engagement.

2.23 Research funded by the Government and published in 2007¹⁴ and 2008¹⁵ found that apprentices and their employers achieved financial returns from their apprenticeships. In March 2011, further research for the Department quantified the overall return to the economy of government spending on apprenticeships and other further education.¹⁶ This estimated a return of £24 to £35 for every £1 the Department spends on apprenticeships, compared with returns of between £7 and £33 for every £1 spent on other forms of further education. The Department also cites returns of around £40 for every £1 of public investment in apprenticeships.¹⁷ This figure is higher because it is based solely on those apprentices who do not already have a qualification at an equivalent or higher level. The Department has quoted this figure even though it is estimated that nearly three-quarters (72 per cent) of intermediate-level apprentices, and half (50 per cent) of advanced-level apprentices, already had an equivalent or higher qualification.

2.24 Our own analysis of data from the period 2004 to 2010 has confirmed that apprenticeships are strongly associated with wage premiums. Individuals with advanced apprenticeships show 18 per cent higher wages, while those with intermediate apprenticeships show 11 per cent higher wages. Using cost–benefit analysis, these returns convert to estimated returns of £21 and £16 respectively for every £1 of public spending on adult apprenticeships (**Figure 8** overleaf). We estimate the combined return to adult apprenticeships to be £18 for every £1, while the Department’s combined estimate is £28.¹⁸ These returns are sensitive to the precise specification of, and assumptions within, the cost-benefit model used.

14 S. McIntosh, *A Cost–Benefit Analysis of Apprenticeships and Other Vocational Qualifications*, 2007.

15 C. Hasluck, et al, *The Net Benefit to Employer Investment in Apprenticeship Training*, 2008.

16 Department for Business, Innovation and Skills, *Measuring the economic impact of further education*, 2011.

17 This is a single figure, rather than a range, because it is a weighted average of the returns of both advanced and intermediate apprenticeships.

18 The research paper is at www.nao.org.uk/apprenticeships-2012

Figure 8

Estimated returns to public spending on adult apprenticeships

	Department's estimate	National Audit Office estimate
Advanced apprenticeships	£24:£1	£21:£1
Intermediate apprenticeships	£35:£1	£16:£1

Source: Department for Business, Innovation and Skills (2011), *Measuring the economic impact of further education*; National Audit Office analysis

2.25 A number of factors explain the lower return found by our research compared with that previously found by the Department. The most important are as follows:

- The Department includes additional benefits from the positive impact of a completed apprenticeship on the productivity of the workforce over and above the resulting wage premiums, because it considers that employers would not engage in the Programme without the prospect of such benefits. Based on its assessment of the available evidence, it assumes these additional benefits are equivalent to 100 per cent of the wage premiums. We consider that there is insufficient evidence to support this position. We do reflect some benefits on top of the wage premiums paid to an apprentice, but have adopted a more cautious approach in assuming that the additional benefits are equivalent to 25 per cent of the wage premiums, which is derived from estimated non-wage labour costs.
- We use more recent data on wage premiums and the likelihood of being employed, which reduces our estimate of returns to intermediate apprenticeships in particular.

2.26 We also analysed whether the returns to apprenticeships have changed over time. For the period examined, 2004 to 2010, there is indicative evidence that the returns to intermediate apprenticeships have declined over time, with the wage premium reducing from 18 per cent in 2004 to 7 per cent in 2010.¹⁹ Further work is needed to strengthen the statistical validity of these results and to examine the likely causal factors.

Additionality of public funding

2.27 The returns to public funding of apprenticeships (Figure 8) assume that without public subsidy none of these apprenticeships would have occurred. If the level of additionality were, for instance, two-thirds (meaning that employers would have paid for a third of the training anyway) then the returns would reduce by one third.

¹⁹ Underlying analysis is based on annual cohorts from the Labour Force Survey rather than annual cohorts of completed apprentices. This statement therefore is not identical to saying that apprentices who completed in each of these years received progressively lower wage returns, although the effect may be similar.

2.28 In 2010 the Committee of Public Accounts was critical of the additionality of the Train to Gain Programme. In response the Department committed to no longer funding training that employers would pay for themselves. The Department does not currently have an estimate of the additionality from the Apprenticeship Programme, even though the Programme has been running since 1994. The Service is confident that additionality in the Apprenticeship Programme is likely to be higher than for Train to Gain, in part because all frameworks include a knowledge element which is not widely used outside of the Programme. In late 2011 the Department surveyed employers to help address this question, and the evidence should become available in early 2012.

Varying financial returns between different types of apprenticeship

2.29 Our work suggests the economic impact of public spending on apprenticeships could vary significantly across sectors. We examined how wage premiums varied by sector. The results were very variable, with small sample sizes increasing the degree of uncertainty around the estimates in some cases. The results nevertheless suggested, for example, that:

- the highest wage premiums were seen in ‘distribution, hotels and restaurants’ and in ‘public administration, education and health’;
- there were notably higher premiums for advanced apprenticeships than for intermediate in ‘manufacturing’, ‘transport and communication’, and ‘other services’; and
- apprenticeships in the ‘banking, finance and insurance’ sector showed insignificant wage premiums.

These findings imply that returns are likely to vary substantially across sectors and that there is a need for further research. We were unable to find evidence that older workers’ apprenticeships are associated with either higher or lower wage premiums than other age groups.

2.30 The Department has not so far attempted to prioritise its spending according to which apprenticeships are likely to yield higher returns. In December 2011, the Department announced its intention to focus the Programme on areas where apprenticeships bring the greatest returns and wider benefits, including younger adults, new employees, higher level qualifications and particular sectors. It has not published details of how these priorities were selected.

Part Three

Overseeing and managing the Programme

3.1 This part examines whether:

- the Department has established effective arrangements for governance and programme management;
- the Agency and Service are matching supply and demand for apprenticeships;
- the Agency has contracts with training providers that encourage resources to be used effectively; and
- the Department, Agency and Service are controlling the cost of administering the programme.

Overseeing the Programme

3.2 The departments have set up the Apprenticeship Programme Board to oversee the Programme. The Board is chaired by the Service's Chief Executive, and comprises the Agency's Chief Executive²⁰ and senior officials from both departments. The Board reviews the strategic direction of the Programme, in-year progress in delivering policy goals, and high-level risks. A joint Apprenticeships Unit, comprising officials from the parent departments, coordinates policy and reviews progress for the departments, advising ministers as appropriate.

3.3 Our examination suggested the joint departmental arrangements had enabled the Board to closely monitor the Programme's performance, focusing especially on increasing apprenticeship starts against indicative targets and in communicating with partner bodies. Our interviews with officials on the Apprenticeships Unit suggested they understood how the Programme was developing and the challenges in delivering the Programme. There was evidence of:

- monthly meetings between Agency and Service senior management and Department officials, with similar meetings with Department for Education officials;
- bi-monthly meetings of the Apprenticeship Programme Board; and
- quarterly meetings between the Minister and (separately) the chief executives of the Agency and Service to review performance.

²⁰ Formally titled Chief Executive of Skills Funding.

3.4 The departments have sought to clarify the respective responsibilities of the Service and the Agency, but it is too early to assess how well these arrangements are working. Until July 2011, the Chief Executive of the Agency had been accountable for the Programme budget, but did not have control over the Service, which is responsible for delivering the Programme's objectives. Since August 2011, following a review by the departments, the Chief Executive of the Service was given responsibility for the Programme budget as well as delivery. The new arrangements will require a formal agreement between the Service and the Agency on the services to be provided by the latter.

3.5 External reviewers have previously criticised the lack of long-term objectives for the Service. A 2010 Gateway Review found the Department created the Service without a proper business case. It recommended the Service produce a long-term strategy, with a performance measurement system. The Service has not responded formally to these recommendations but says it accepts and will implement them.

3.6 While the Department produces annual skills investment strategies, setting out desired priorities for the Programme, we noted that both it and the Service lack a clear statement of the long-term outcomes they expect, and the relationship between those outcomes. For example, the Service needs to consider meeting the needs of the economy, encouraging a sustainable culture of skills training among employers, and achieving various social benefits expected from the Programme. Without greater clarity, potential tensions between increasingly complex and diverse objectives will be harder to manage.

Matching supply and demand

3.7 The Department aims to have an apprenticeship system that meets the needs of learners and business by:

- providing employers and potential apprentices with good quality information on training quality and benefits; and
- allowing training providers the flexibility to respond to employers' needs by deciding the type and volume of training they supply.²¹

3.8 Formal, off-the-job apprenticeship training is delivered by around 900 training providers.²² Of these, the majority are private organisations, 240 are further education colleges, and others include charities, local authorities and NHS Trusts. On behalf of the Service, the Agency contracts with and allocates funding to providers, using as a starting point the volume of training each delivered the previous year. Employers may approach providers to establish an apprenticeship programme, but often the approach comes from providers, whose sales teams contact local employers to offer their services. There are broadly three routes for an individual to get on an apprenticeship:

- A person may be recruited by an employer as an apprentice, or with a view to becoming an apprentice after a probationary period.

²¹ Department for Business, Innovation and Skills, *Skills Strategy*, November 2010, pp. 53–4.

²² The largest national employers may contract with the Agency to receive the funding for off-the-job training directly, and 60 did so in 2010/11.

- A person may be already employed and put onto an apprenticeship, either transferring to a new role or receiving training for their existing job. In 2007, around half (48 per cent) of apprentices in Britain (all ages) were existing employees before they started their apprenticeship.²³ Forthcoming research is likely to show that this proportion has since increased markedly, partly due to the rise in older apprentices, who are more likely to be existing employees.
- A person may be recruited by a training provider acting as a recruitment agency. The provider finds them an apprenticeship, typically with a small employer.

3.9 Potentially, employers have access to a good choice of frameworks. Employers can choose from around 118 different apprenticeship subjects. The Sector Skills Councils decide whether to create new frameworks in consultation with employers in their sector about skills needs.

3.10 In practice the apprenticeship training market concentrates on delivering a subset of these frameworks in bulk. In 2010/11, 83 per cent of new apprenticeships were in 15 (out of 118) framework subjects. Among the most popular apprenticeships are more generic subjects that can be delivered to apprentices in different sectors, giving greater economies of scale in their delivery. While there is plenty of competition among providers for these subjects, in 2009/10 43 (36 per cent) of the then 119 frameworks were offered by five or fewer providers across the country.

3.11 Employers and individuals need good information about training providers to be intelligent customers. The Service aims to supply information primarily via the online Apprenticeship Vacancy Service. Established in January 2009, the system is intended to allow individuals to search and apply for apprenticeship places. It has raised awareness and helped many individuals to apply for apprenticeships. In 2010/11, the number of individuals registered on the system increased by 63 per cent to 477,200, and the number of vacancies advertised increased by 68 per cent to 72,300.

3.12 The Apprenticeship Vacancy Service is less well-suited to meeting employers' needs. A review commissioned by the Service in 2010 found that, of those employers who were aware of the website, fewer than 15 per cent had used it to search for a provider, and this aspect of the website received the lowest satisfaction rating.²⁴

3.13 The Service aims to assist employers that notify it they cannot obtain the training they would like. Where there is no framework that meets the employer's needs, the Service can encourage the relevant Sector Skills Council/Organisation to devise a new framework. Where the employer cannot find a provider to deliver the appropriate framework, the Service can broker a training contract, for example by bringing in a provider from another location. However, the Service does not identify itself as a regulator of the market for apprenticeship training, and it lacks information on whether the market is meeting employers' needs. For example, the Service does not know

²³ Of these, 32 per cent had only worked for their employer for less than three months, suggesting some may have been taken on with a view to being made apprentices following a probationary period. Fong, B., and A. Phelps, *Apprenticeship Pay: 2007 Survey of Earnings By Sector*, BMRB Social Research, 2008, p12.

²⁴ CFE, *Evaluation of the Apprenticeship Vacancy Service*, 2010, p.30.

whether providers are incentivised through competition or price to offer a sufficiently wide range of frameworks. The Service also lacks data on whether employers of all types and size are receiving the information they need to make informed decisions.

Contracting with training providers

3.14 The Agency manages contracts with providers to deliver the taught element of apprenticeships and carry out on-the-job assessments of apprentices' progress. Providers receive funding for each apprentice based on a tariff structure formulated by the Agency.

3.15 Our review suggested the Agency had addressed weaknesses previously identified in our review of the former Learning and Skills Council's Train to Gain Programme:

- The Agency has strengthened its national contract management. The Learning and Skills Council had previously experienced difficulty controlling budgets and managing quality of delivery on the Train to Gain Programme. The Agency now maintains a central register of approved providers, with a single national contract and account manager for each. This has improved the Agency's knowledge of its main contractors.
- The Agency has set minimum performance standards for providers. For example, providers have to achieve success rates of at least 53 per cent; that is, this proportion of their apprentices has to complete within the expected time. Providers may be barred for 12 months from offering training in those subjects if their performance falls below this level. If their overall performance is too low, they may be barred from offering apprenticeship training or removed entirely from the list of approved providers. In 2010/11 four providers were barred entirely for a year, while another 29 were barred from offering certain subjects.
- Based on its audit of a sample of providers in 2010-11, the Agency estimated that the value of flawed funding claims across the entire Apprenticeship Programme was 0.8 per cent. This is lower than the 1.1 per cent on Train to Gain but above the 0.6 per cent for adult further education.
- The Agency has strengthened its arrangements to monitor provider budgets in-year. Our evidence suggests the Agency has been proactive in removing allocations from providers who are not meeting their in-year profiles, and redistributing monies to others. It now allows providers flexibility to use their allocations within an Adult Skills Budget, which includes Apprenticeships and Train to Gain. Overall its controls have successfully controlled individual provider spending.

3.16 As with Train to Gain, the Agency relies on its main contractors to manage a large number of sub-contractors. This reliance is likely to increase from 2011-12 because, to reduce the number of contracts it manages and reduce costs, the Agency has increased the minimum value of training for which it will contract to £0.5 million. The Agency and the Service consider increased sub-contracting to be a critical risk which could result in lower quality provision, and they are working together to manage this risk.

3.17 In recent years, annual Adult Apprenticeship spending has been close to its budget. However, in 2010-11 the Agency spent £98 million less on adult apprenticeships than had been originally budgeted in June 2010. This was because, in allocating the additional £150 million to deliver an extra 50,000 adult apprenticeships, the Department overestimated the funding required. In fact, the Agency delivered double the number of extra apprentices (102,800), while only spending a third (£52 million) of the additional funding. This underlines how much cheaper these places were than anticipated by the Department, partly reflecting their take-up by over-25s, who attract less funding. Using new flexibilities introduced by the Department, providers could use the remaining additional funding for other further education and skills training.

Setting tariff rates and employer contributions

3.18 The Agency has set a funding tariff for each framework, to help providers cover their costs of delivering training, assessment and administration. In 2010/11, full tariffs ranged from £3,000 (intermediate apprenticeship in public services) to £25,300 (advanced apprenticeship in engineering), and averaged £7,800. The amounts the Agency pays providers are reduced by 50 per cent for adults (because employers are expected to contribute half of the providers' costs), and further reduced by 20 per cent for apprentices aged 25+. There is also a reduction of 25 per cent where employers have more than 1,000 staff.

3.19 Tariffs are not based on sufficiently robust assessments of the cost of delivering different apprenticeships. Tariff values are derived from a complex formula, that is partly based on evidence of the activity required to deliver the training in different sectors. However, some elements have become particularly dated: one element (used to derive the hourly cost of training) dates back to at least 2001-02, with the evidence to support it no longer available. Additionally, tariffs have been adjusted simply to reflect the change in annual budgets, rather than any assessment of delivery costs. Without robust information on costs, the Agency and the Service may unknowingly subsidise some apprenticeship frameworks more than others, potentially distorting providers' decisions on which frameworks to offer. The Agency and the Service are not in a position to judge the extent to which providers may be generating significant surpluses or losses due to the rates paid on individual frameworks.

3.20 Tariffs and funding arrangements are to change from 2013/14. The Agency is proposing to simplify funding for adult skills, including reducing the number of different funding rates for adult skills from over 6,000 to around 30.²⁵ These changes should increase the transparency and improve providers' and employers' understanding of the system, while reducing bureaucracy. The Agency intends that the simplified funding rates will be linked to providers' costs of delivery. A further change will be the replacement of public funding of advanced apprenticeships for over-24s by publicly-provided loans to the apprentices.

3.21 Employers are allowed to make their contributions to training costs either in cash or in kind (for example, by providing equipment), and these contributions should have amounted to around £450 million in 2010-11. However, evidence commissioned by the Department and Agency suggests that some employers do not pay the 50 per cent contribution expected of them:

- A 2009 survey of providers found that while 57 per cent of providers collected fees from employers, in half of these cases (47 per cent) this funding made up only between 1 and 25 per cent of their apprenticeship funding.²⁶
- Research in 2009 suggested that the majority of providers did not charge fees to employers for adult apprentices.²⁷ It also found little evidence of providers seeking in-kind contributions.
- In 2010, the Banks Review of Fees and Co-Funding concluded that the current system of co-funding in further education was failing to make sure that the expected contributions were being made. It recommended introducing a matched-funding approach, where public funding would be paid only where fee income had been collected. The Department has not taken up this recommendation.

3.22 The November 2010 Skills Strategy stated that the Agency 'will monitor the collection of fees and this will influence future allocations.' Our work indicates the Agency does not obtain information on employer contributions. The Agency has been trying to assign a cash value to in-kind contributions, but does not yet have results.

Managing the cost of administering the Programme

3.23 The Programme's main administrative costs lie with the Skills Funding Agency, the National Apprenticeship Service and training providers. Our report *Reducing bureaucracy in further education in England* examined the impact of administration on further education colleges imposed by this and other government programmes.²⁸ We estimated that these providers incurred administration costs of around £150 per learner across all of the Agency's programmes.

25 Skills Funding Agency, *A new streamlined funding system for adult skills*, October 2011.

26 Learning and Skills Council, *Understanding the provider base*, p12.

27 RCU, *Investigation into Employer Contributions within the Employer Responsive Funding Model*, 2009, p21.

28 Comptroller and Auditor General, *Reducing bureaucracy in further education in England*, Session 2010–2012, HC 1590, National Audit Office, December 2011.

3.24 The Service's administration costs were £13.4 million in 2010-11, a reduction of 16 per cent on its costs of £16.1 million in 2009-10. The Programme's marketing budget has reduced by three-quarters in three years, down to £1.9 million in 2010-11. Despite this, the Service has significantly increased the number of starts it has generated, partly through targeting its sales operations on larger employers. In the Train to Gain programme, skills brokers, who performed a similar role, had unit costs of around £810 per employee. It is likely that the unit cost per apprentice of the Service's sales team is somewhat lower, but the Service does not set a unit cost target or measure its actual unit costs.

3.25 The Service also pays for the Apprenticeship Vacancy Service (AVS). Our analysis suggests that the Learning and Skills Council did not procure the AVS efficiently. With set-up and development costs to March 2012 of £27 million, the AVS lies towards the upper end of international benchmarks for a website of this complexity. Its annual maintenance costs of £1.4 million are in line with those of other Government websites. In a small survey carried out for the Service in 2011, almost half (46 per cent) of employers who placed vacancies on the system said they spent less money recruiting apprentices as a result.

Appendix One

Study methods

Method	Purpose
<p>1 Economic analysis of wage returns to apprenticeships (using the Labour Force Survey) and the returns to public spending.</p>	<p>To test the Department's model for measuring economic returns, and extend the analysis to provide a sector breakdown.</p>
<p>2 Twenty-three semi-structured interviews with officials from the Department, the Agency and the Service.</p>	<p>To understand the design, performance and management of all aspects of the Programme.</p>
<p>3 Review of documents provided by the Department, the Agency and the Service, and review of the extensive literature on apprenticeships.</p>	<p>To understand the design, performance and management of all aspects of the Programme.</p>
<p>4 Site visits to six employers and providers (MINI Plant Oxford (part of the BMW Group), Chichester College, Damovo Ltd, JHP Training, North Warwickshire & Hinckley College, PETA Ltd).</p>	<p>To gain knowledge of the workings of the system.</p>
<p>5 Analysis of data on apprenticeship starts, completions, success rates and framework prices.</p>	<p>To examine the Programme's performance and costs.</p>
<p>6 Analysis of survey data from National Employer Skills Survey, Employer Perspectives Survey, and National Learner Satisfaction Survey.</p>	<p>To obtain employers' and apprentices' views to assess the prevalence of skills shortages in England.</p>
<p>7 Consultation with sector bodies, including representatives of employers, apprentices and providers, and third parties.</p>	<p>To gain wider information on the management and performance of the Programme.</p>
<p>8 International comparisons with other countries' apprenticeships systems.</p>	<p>To understand differences between the approach in England and in other countries.</p>



Design and Production by
NAO Communications
DP Ref: 009798-001

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