



National Audit Office

**REPORT BY THE
COMPTROLLER AND
AUDITOR GENERAL**

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

Adult Apprenticeships

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

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.