National Audit Office

Report
by the Comptroller
and Auditor General

Department for Education

The apprenticeships programme

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Key facts

£1.6bn
public spending on the apprenticeships programme in 2017-18

26%
drop in the number of apprenticeship starts between 2015/16 and 2017/18

44%
proportion of apprenticeship starts in 2017/18 that were on a new, employer-designed standard, rather than an old-style framework

£2.0 billion	apprenticeship levy payments collected from UK employers in 2017-18 and allocated to England
9%	proportion of available funds that levy-paying employers used to pay for new apprenticeships in 2017-18, compared with the Department for Education's projection of 13%
375,800	apprenticeship starts in 2017/18
32%	proportion of people who reached the end of their apprenticeship in 2016/17 but did not achieve the apprenticeship
58%	proportion of the established training providers inspected in 2017/18 that Ofsted rated as good or outstanding for their apprenticeship training
27%	proportion of training providers whose low apprenticeship achievement rates met the criteria for intervention by the Education and Skills Funding Agency in 2016/17

Throughout this report, financial years are written as, for example, '2017-18' and run from 1 April to 31 March; further education sector academic years are written as '2017/18' and run from 1 August to 31 July.

Summary

1 The apprenticeships programme is intended to help address two important problems: poor productivity in the United Kingdom (UK) compared with many international competitors; and a significant fall in employers' investment in training over recent decades. The programme aims to allow people in England to develop the knowledge, skills and behaviours required for their occupation. Its objectives are to:

- meet the skills needs of employers;
- create opportunities for apprentices to progress in their careers;
- draw apprentices from a wider range of social and demographic groups; and
- create more quality apprenticeships.

2 An apprenticeship is a job that combines work with training. Apprentices can be new or existing employees. Apprenticeships are open to people over the age of 16, and are available at a range of levels, from GCSE-equivalent (level 2) to degree-equivalent (levels 6 and 7).

3 An apprenticeship must last for at least 12 months, and the apprentice must spend at least 20% of their paid hours doing off-the-job training. This training may be delivered by an authorised provider, the employer or a combination of the two. Government contributes to the cost of apprenticeship training and assessment.

4 The content of each apprenticeship is set out in either a 'framework' or a 'standard'. Frameworks are being phased out in favour of standards. An apprenticeship framework consists of a package of qualifications that are assessed independently of one another. An apprenticeship standard is designed by an employer group from the relevant sector and consists of two parts: an occupational standard, which sets out the knowledge, skills and behaviours that the apprentice will need to acquire; and an end-point assessment. The apprentice is assessed by an independent third party at the end of the apprenticeship to determine whether they are occupationally competent.

5 The Department for Education (the Department) is accountable for the apprenticeships programme, including securing value for money. The Education and Skills Funding Agency (the ESFA) is responsible for apprenticeships policy and funding, and for overseeing the delivery of apprenticeships.

6 In spring 2017, the following significant changes were made to support delivery of the programme:

- The ESFA added to the funding rules the requirement for apprentices to spend at least 20% of their paid hours doing off-the-job training.
- The Institute for Apprenticeships (now the Institute for Apprenticeships & Technical Education) (the Institute) was established to ensure the quality, consistency and credibility of apprenticeships, including helping employers to develop apprenticeship standards and approving the standards.
- The government introduced a 0.5% apprenticeship levy for employers with a pay bill of more than £3 million. Levy-paying employers can use this money, plus a 10% government top-up, to pay for apprenticeship training and assessment.
- The government also introduced a ‘co-investment’ arrangement for smaller employers, which are required to pay 10% of the cost of training and assessing each new apprentice. Previously, payment arrangements were more complex, although employers incurred no cost for some apprenticeships.
- The ESFA successfully launched an online service on time, despite the significant challenges involved. The service allows levy-paying employers to access their funds, manage their apprenticeships and pay their training providers. By November 2018, employers had registered around 16,000 online accounts.

7 Public spending on the apprenticeships programme increased from £1.2 billion in 2010-11 to £1.6 billion in 2017-18. The programme’s budget for 2018-19 is £2.2 billion.

Focus of this report

8 Through the apprenticeships programme, the government aims to enhance skills and boost productivity. To secure value for money, the Department needs to use the available public funding to support high-quality apprenticeships that best add value to society and the economy.

9 We last reported on apprenticeships in September 2016, when the Department was in the early stages of expanding and reforming the programme.[1] Since then, the Department has implemented major changes to make the programme more employer-led and employer-funded.

10 This report examines progress since 2016 and assesses whether the apprenticeships programme is providing value for money. We examined: spending and budgeting (Part One); the number and type of apprenticeships (Part Two); and oversight of the programme (Part Three). We set out our audit approach in Appendix One and our evidence base in Appendix Two.

1 Comptroller and Auditor General, *Delivering value through the apprenticeships programme*, Session 2016-17, HC 624, National Audit Office, September 2016.

Key findings

Spending and budgeting

11 **In 2017-18, levy-paying employers used 9% of the funds available to them to pay for new apprenticeships**. These employers accessed £191 million of almost £2.2 billion of levy funds and government top-up available to them. The funds expire after 24 months. The Department had projected that levy-paying employers would use 13% of the available funds in 2017-18. Partly because the amount used was lower than expected, the Department spent less on the programme than it had budgeted. In 2017-18, it spent £1.6 billion (a £400 million underspend); and, at the time of our work, it expected to spend around £1.7 billion in 2018-19 (a £500 million underspend) (paragraphs 1.20 and 1.22).

12 **The average cost of training an apprentice on a standard is around double what was expected, making it more likely that the programme will overspend in future**. HM Treasury has allocated the Department a fixed annual budget for the programme. This forms part of the 'departmental expenditure limit' rather than being treated as 'annually managed expenditure', which usually applies for programmes that are demand-led where spending is more difficult to control. When the Department set its funding policy in 2016, its spending forecasts included £100 million to £150 million within each year's budget to provide some flexibility if some parts of the programme spent more than planned. In late 2018, the Department forecast that spending would be on budget at just under £2.6 billion in 2019-20, but there could be a £230 million underspend in a 'low-spending scenario' or a £72 million overspend in a 'high-spending scenario'. In practice, employers are developing and choosing more expensive standards at higher levels than was expected. The Department has calculated that the average cost of training an apprentice on a standard at the end of 2017-18 was around £9,000 – approximately double the cost allowed for when budgets were set (paragraphs 1.22 to 1.24).

13 **Financial constraints could inhibit growth in the number of apprenticeships**. Under current funding arrangements, the Department and HM Treasury had expected levy-paying employers to access up to around half of the funds in their accounts to cover both new starts and existing apprenticeships. The Department's projections show that, even if starts remain at current levels, spending could rise to more than £3 billion a year once frameworks are withdrawn and all apprenticeships are on standards. The Department recognises that there are ways to control spending if necessary. The options could include limiting the number of new apprenticeships or reducing the level of public funding for certain types of apprenticeship. However, these measures are likely to be unpopular and could damage confidence in the programme (paragraphs 1.20, 1.24 and 1.25).

Number and type of apprenticeships

14 **The government is very unlikely to meet its target of 3 million apprenticeship starts by 2020.** There was a spike in starts in April 2017, the last month when employers and training providers could use the previous payment arrangements. However, the number of starts fell substantially after this, and has not recovered to previous levels. In 2017/18, the first full academic year after the levy and co-investment were introduced, there were 375,800 starts. This was 26% lower than the 509,400 starts in 2015/16, the last full year before the reforms. The fall was particularly marked for level 2 apprentices aged 25 or over, with 55% fewer starts in 2017/18 compared with 2015/16. Stakeholders believe that the fall in starts may have been because employers and training providers were uncertain about how the new system would work. It may also be an indication of a move away from apprenticeships that do not meet quality requirements such as apprentices spending at least 20% of their time doing off-the-job training. The Department expected a broad year-on-year increase in starts; it did not project a drop in numbers after introducing the levy. To meet the target of 3 million new apprenticeships by March 2020, the rate of starts would need to double for the remainder of the period (paragraphs 2.2 to 2.5 and 2.14, and Figure 4).

15 **The Department's targets for widening participation among under-represented groups lack ambition.** The Department is on track to meet two of its diversity targets: the numbers of starts by black, Asian and minority ethnic (BAME) apprentices and by apprentices with a learning difficulty, disability or health problem. However, these targets are not stretching. For example, the target for starts by BAME apprentices (11.9%) is lower than the working-age BAME population of England (14.9%) and much lower than the proportion of BAME pupils at the end of key stage 4 (20.7%). The Department also aims to maintain the proportion of apprentices from the most disadvantaged areas at 25%. However, in 2017/18, only 22.6% of new apprentices were from these areas. The Department has no targets relating to gender equality, despite the notable under-representation of women in science, technology, engineering and mathematics (STEM) apprenticeships (paragraphs 2.9 to 2.13 and Figure 6).

16 **Since April 2017, there has been a steep rise in the proportion of apprenticeships started under the new standards, which are intended to meet employers' needs better.** Employers generally have a positive view of standards in principle. The Department's 2017 survey found that almost two-thirds of employers who had some involvement with standards considered them to be an improvement on frameworks. The proportion of apprenticeships starting on a standard, rather than a framework, has increased considerably. In April 2017, just 2% of starts were on a standard. In April 2018, starts on a standard overtook framework starts for the first time; in total during 2017/18, 44% of starts were on a standard (paragraphs 2.17, 2.18 and 2.23, and Figure 8).

17 Progress in introducing the new standards has been slow, meaning that many apprenticeships continue to start under the older frameworks. In December 2018, five years after the process began, around 360 of a potential 600 standards had been approved. Our 2016 report noted that it was taking, on average, nearly a year to develop an approved standard. In early 2018, the Institute began a project that aims for standards to be approved typically within eight months. For standards that the Institute has overseen from the start, there has been a downward trend in development times. However, because of a backlog of standards that were already in development before the Institute was created, only around 6% of those completed between January and October 2018 were approved within the target timeframe. The Department and the Institute have not seen it as their role to prioritise any particular standards, meaning that those introduced first were not necessarily for apprenticeships that could add the most value. In 2017/18, 212,000 starts (56% of the total) were on a framework, including eight of the 10 most popular apprenticeships (paragraphs 2.19 to 2.21 and 2.24).

18 The introduction of standards has increased the number of higher-level apprenticeship starts. In 2017/18, 12.8% of starts were at level 4 or above, compared with 5.3% in 2015/16. This trend looks set to continue. The Department considers that this change will encourage the types of apprenticeship that tend to deliver more value, in terms of long-term wage return to the apprentice, although the training for these apprenticeships also tends to absorb more public funding. Some levy-paying employers are replacing their professional development programmes – for example, graduate training schemes in accountancy or advanced courses in management – with apprenticeships. In such cases, there is a risk that the additional value of the apprenticeship to the economy may not be proportionate to the amount of government funding (paragraphs 2.27 to 2.30 and Figure 9).

Oversight of apprenticeships

19 The Department has improved its performance measures but is still not transparent in how it demonstrates the overall added value of the programme. In March 2017, the Department published a broad set of performance measures for the programme. As a result, it now has better insight into the programme's impact. Performance to date has been mixed. For example, the Department reported higher earnings for successful apprentices at all levels, but the proportion of apprentices remaining with their employer after completing their apprenticeship has fallen. In addition, the focus on starts rather than completions obscures the large number of people who fail to complete their apprenticeship successfully – 32% of apprentices in 2016/17. It also remains difficult to understand the impact of the programme on economic productivity. The Department reports a 'skills index' for the programme. This takes account of the impact on earnings of successfully completing an apprenticeship, which is an established way of calculating productivity gains. However, the Department has not set out how these calculations feed into the index, or what kind of increase in the index would constitute 'success' (paragraphs 3.3 to 3.6 and Figure 11).

20 **The ESFA has limited assurance that apprentices are spending at least 20% of their time on off-the-job-training.** In summer 2018, the ESFA identified 14 red-rated risks (risks with high impact and high probability) associated with delivery of the programme. After taking account of mitigating actions, it recorded just one red risk – that apprentices do not spend at least 20% of their time doing off-the-job training. The ESFA does not yet have an effective way of identifying where apprentices are routinely receiving less training than they should. This is an important gap in oversight, as training providers are paid as long as apprentices remain on the programme (paragraphs 3.12 to 3.15).

21 **In 2016/17, around a quarter of training providers met the criteria for ESFA intervention because of low achievement rates for apprenticeship training.** The ESFA considers intervening where a provider's achievement rates fall below national minimum standards. In 2015/16, it raised the minimum standards threshold, meaning that more providers met this criterion for intervention. In 2016/17, 27% of providers were in scope for intervention, compared with 5% in 2012/13. In most of these cases, the ESFA requires the provider to develop and implement an improvement plan in order to avoid more serious sanction. In the most serious cases, the ESFA may terminate a provider's contract. Between 2012/13 and 2016/17, it terminated the contracts of 11 providers for falling below national minimum standards (paragraphs 3.17 to 3.19 and Figure 12).

22 **Around a third of apprentices covered by inspections in 2017/18 were being trained by providers rated by Ofsted as 'inadequate' or 'requires improvement'.** Ofsted rated 58% of the established providers that it inspected in 2017/18 as 'good' or 'outstanding' for their apprenticeship training, compared with 49% in 2016/17. The good and outstanding providers were generally training larger numbers of apprentices. This means that around two-thirds of the apprentices recorded at the time of inspection were being trained in good or outstanding providers. Ofsted aims to conduct a short monitoring visit at each new provider within 24 months of the provider starting to receive funding. Its monitoring visits in 2018 found that more than one-fifth of new providers were making insufficient progress in at least one of the areas examined (paragraphs 3.23 to 3.28 and Figure 13).

23 **The assessment arrangements are incomplete for some standards, increasing the risk that people with different and possibly inadequate skill levels may pass their apprenticeship.** Not all apprenticeship standards have assessment organisations in place, and many have only one. Stakeholders raised concerns with us that, as growing numbers of apprentices finish their apprenticeship under a standard, there may be insufficient capacity to carry out assessments, leading to unnecessary delays or inconsistency. Each standard also requires a quality assurance body; the Institute is the listed quality assurance body for 45% of approved standards, although it intended to undertake this role only in the event that no viable alternative was available (paragraphs 3.29 to 3.32).

Conclusion on value for money

24 The Department has reformed the apprenticeships programme since we reported on the topic in 2016, shifting its focus towards apprenticeship quality and meeting employers' needs. It also now has a better, more holistic approach to assessing the benefits of the programme. However, employers have so far made limited use of the available levy funds to support new apprenticeships, and the period after the levy was introduced saw a large drop in apprenticeship starts. There are risks that the programme is subsidising training that would have happened without government funding, and the Department has not set out clearly how it measures the impact of the programme on productivity. Given these concerns, the Department has some way to go before it can demonstrate that the programme is achieving value for money and that resources are being used to best effect.

25 Looking ahead, there are concerns about the long-term sustainability of the programme. Spending is demand-led, driven by employers' decisions about how many and what types of apprenticeships they want. There is a clear risk that the budget may be insufficient should demand pick up in the way that would be needed for the programme to meet its objectives. Government would then need to choose between providing more funding, inhibiting growth in apprenticeships or reducing the level of public funding for some apprenticeships.

Recommendations

26 The Department's strategic planning for the programme currently runs to March 2020. We recommend that, to be ready for the next phase of the programme, the Department, the ESFA, the Institute and HM Treasury should complete the following actions by the end of 2019 at the latest.

a The Department should set out clearly how it measures the impact of the programme on productivity, and indicate the level of impact that it is aiming to achieve.

b The Department should strengthen the programme's performance measures relating to participation among under-represented groups.

c The Department and the ESFA should assess whether they would secure better value for money by prioritising certain types of apprenticeship, rather than delivering a programme for apprentices at all levels, in all sectors.

d The ESFA should better mitigate the key risk that apprentices may not spend 20% of their time on off-the-job training.

e The Institute should improve assessment arrangements to ensure that assessment is conducted in a fair, consistent and robust manner across different apprenticeship standards and between different assessment organisations.

f The Department and HM Treasury should determine how spending should be treated, and how budgets should be set, in order to secure the future financial viability of the programme. This should include giving due consideration to whether spending on the programme should be treated as annually managed expenditure.