



National Audit Office

Report

by the Comptroller
and Auditor General

Department for Education

Delivering value through the apprenticeships programme

Key facts

2.4m

apprenticeships
started between
2010/11 and 2014/15

£1.56bn

of public funding
for apprenticeships
in 2014-15

72%

of apprentices achieved
their apprenticeship
in 2014/15

- 3 million** target for the number of new apprenticeship starts between 2015 and 2020
- 62%** proportion of apprenticeships that were started at Level 2 (the most basic level, equivalent to GCSEs) between 2010/11 and 2014/15
- 97** the number of training providers who failed to meet the minimum standard of 55% of apprentices achieving their apprenticeship in 2014/15
- 32%** average wage 'premium' gained by successful Level 3 apprentices in the construction subject area, compared with those who fail their apprenticeship
- 7%** average wage 'premium' gained by successful Level 3 apprentices in the secretarial subject area, compared with those who fail their apprenticeship

Summary

1 The Office for National Statistics estimates that Germany, France and the USA are each about a third more productive than the UK. Research has indicated that the gap could be partially explained by the UK's lower emphasis on technician- and higher-level vocational education that combines on- and off-the-job training.

2 Successive governments have considered apprenticeships to be a key way of developing skills, and they are therefore a crucial part of plans for growth and improved productivity. It is thought that, without government intervention, employers would not invest an economically optimal amount in training, including apprenticeships.

3 In England, an apprenticeship is a full-time paid job, available to those aged 16 or over. It incorporates on- and off-the-job training and leads to a nationally recognised certificate. Apprenticeships take at least one year to complete and several years to reach the highest levels. They are available at various levels, depending on the requirements of the job and the apprentice's existing qualifications. As well as providing economic benefits, the government expects apprenticeships to add value in other ways, such as improving outcomes for young people and boosting workplace diversity.

4 In July 2016, the Department for Education (DfE) assumed overall responsibility for apprenticeship policy. Previously, responsibility was shared between DfE and the then Department for Business, Innovation & Skills (which has since become the Department for Business, Energy & Industrial Strategy). The Apprenticeships Directorate, now part of DfE but previously reporting to both departments, has day-to-day responsibility for apprenticeship policy.

5 In recent years, DfE has funded apprenticeships for 16- to 18-year-olds, while the former Department for Business, Innovation & Skills funded adult apprenticeships. Annual public funding of apprenticeships has grown over time. In 2010-11, it amounted to just under £1.2 billion, but by 2015-16 the figure had risen to around £1.5 billion. A number of other organisations are also involved in the oversight of apprenticeships, including the Skills Funding Agency, Ofsted and the Office of Qualifications and Examinations Regulation (Ofqual).

6 There has been significant growth in the number of apprenticeships taking place. Between 2010/11 and 2014/15 (broadly equivalent to the last Parliament), around 2.4 million new apprenticeships were started, compared with around 1.1 million in the previous five years. Most of the growth came from those aged over 24 and in apprenticeships at Level 2, which is equivalent to five GCSEs (General Certificates of Secondary Education).

7 DfE is expanding the apprenticeships programme further, while making it increasingly employer-led and employer-funded. It relies on market mechanisms to address skills gaps in the economy, and is therefore not directly involved in deciding where, or at what level, apprenticeships take place. DfE is introducing significant changes to support delivery of the programme. For example:

- The policy objective is to facilitate 3 million new apprenticeship starts during the period from 2015 to 2020, and several initiatives have been introduced to increase the number of people taking up apprenticeships.
- Groups of employers, called Trailblazers, are coming together to design new apprenticeship standards that are intended to meet their needs more fully than the previous apprenticeship frameworks.
- From April 2017, employers with a pay bill of more than £3 million will pay a levy to fund apprenticeships. The levy is expected to raise almost £3 billion per year. At the same time, it will be made easier for employers to choose and pay for the apprenticeship training and assessment they want.
- In April 2017, an independent and employer-led Institute for Apprenticeships will be created. Its role will include regulating the quality of apprenticeships.

Scope and approach

8 DfE is currently in the early stages of a complex transition programme with regard to apprenticeships. Our report is intended to inform how it manages that transition, and to evaluate the efforts made so far to increase the value achieved from the increasingly employer-led apprenticeships programme. The report covers three main areas:

- defining the programme's aims and measuring success;
- improving the quality of individual apprenticeships; and
- managing risks to apprenticeship quality and value.

Key findings

Defining the programme's aims and measuring success

9 DfE has not set out how it will use the increase in apprenticeship numbers to deliver improvements in productivity, and in particular how the various trade-offs will be managed in terms of cost and added value. In their strategy document, published in late 2015, DfE and the former Department for Business, Innovation & Skills stated that investment in apprenticeships is worthwhile because the investment is quickly paid back in terms of increased productivity. In order to derive the maximum benefit for the country as a whole, there should be a clear rationale for how apprenticeships fit into the wider plan for productivity and growth, including improving capital investment. This strategy should explain: the collective impact that the apprenticeships programme should achieve; the factors upon which such an impact is dependent; and how DfE plans to balance the drive for increased numbers with the need to support employers to deliver the apprenticeships that offer most value to the economy. Without this strategic underpinning, there is a clear risk that the drive to deliver greater numbers is delivered at the expense of delivering maximum value (paragraphs 2.2 and 2.3).

10 DfE has also not defined what 'success' will look like in the reformed programme. The plan is to measure the overall number of apprenticeship starts against a target of 3 million between 2015 and 2020, and the increase in the proportion of black, asian and minority ethnic (BAME) apprentices. But there are no success measures in terms of, for example, how the programme is impacting on skills levels, addressing skills gaps or improving achievement rates. Without establishing which indicators should be used to judge whether the apprenticeships market is working in the right way, DfE cannot know whether the systems and incentives in place are having the desired effect. It has suggested that measuring the programme's success is something that the new Institute for Apprenticeships might take on from 2017, alongside its other roles (paragraphs 2.4 to 2.7).

11 Research shows that different apprenticeships offer significantly different benefits, but DfE's appetite to use this evidence to actively influence the sectors and levels where apprenticeships take place is unclear. DfE explained to us that its approach is to give employers control rather than directing the mix of apprenticeships undertaken. DfE and the former Department for Business, Innovation & Skills have over recent years commissioned valuable research that identifies the types and levels of apprenticeship that deliver the most value, suggesting that there may be significant variations in the value derived. However, it is not clear how DfE plans to use this evidence to maximise the value derived from the mix of apprenticeships undertaken (paragraphs 2.11 to 2.16). The key elements of this research are as follows:

- Wage analysis (which shows the increased earnings that successful apprentices enjoy compared with those who do not achieve their apprenticeship or who follow other learning routes) suggests that there are significant variations in apprentices' earnings 'premiums' across different levels and sectors, including some particularly high wage premiums in the engineering and construction sectors. It also highlights that the most common types of apprenticeship between 2010/11 and 2014/15 were not those offering the biggest earnings premiums (paragraphs 2.11, 2.12 and Figure 6).
- Estimates of overall economic return which show that, on average, apprenticeships at Levels 2 and 3 provide a greater return per pound of government funding than traditional learning in schools or colleges. However, the estimates also suggest that some apprenticeships may offer little or no economic return compared with traditional learning, particularly when total funding from government, employers and learners is taken into account (paragraph 2.13 and Figure 7).
- New outcome measures using data from HM Revenue & Customs to provide analysis on the subsequent employment status and earnings of successful apprentices. Used alongside achievement rates, the measures should make it easier to hold training providers to account, and provide additional insights into the benefits being delivered by the programme (paragraphs 2.15 and 2.16).

Improving the quality of individual apprenticeships

Introducing employer-designed apprenticeship standards

12 Many of the employers and training providers involved in designing and delivering apprenticeships support the principles behind the new standards, but more work is needed to raise awareness of them. The new employer-led standards, which started to be developed in late 2013, focus on apprentices' behaviours as well as their skills and knowledge. The introduction of new standards also allows a wider range of apprenticeships to be encouraged at higher skills levels. DfE is generating enthusiasm for, and improved awareness of, these changes, and particularly awareness of the potential for degree apprenticeships. But the most recent research found that only a quarter of employers were aware of the new standards (paragraphs 3.2 to 3.5 and Figure 8).

13 In practice, the process of developing the new standards has been resource-intensive for employers and has taken longer than DfE envisaged.

DfE and the former Department for Business, Innovation & Skills treated the earliest employer groups as pilots, and ensured there was time to learn from them and refine the process. Despite some improvements, developing the latest phase of standards took, on average, nearly a year. The original intention was to have all apprenticeships starting on the new standards by 2017, but the two departments subsequently decided that they needed to focus on other priorities in the programme to achieve the 3 million target, and extended the time frame to 2020 to allow employers more time. Employers involved have expressed concern about the time they have to invest at their own expense. As at April 2016, only around 2,600 people had started an apprenticeship under the new standards (paragraphs 3.6 and 3.7 and Figure 9).

14 Some employers and industry representative groups are concerned that the approach is leading to a large number of narrow and overlapping standards, which may restrict the extent to which apprentices gain transferable skills.

In December 2015, analysis by the UK Commission for Employment and Skills indicated that a high proportion of the standards in development had a potentially significant overlap with other standards. There could be as many as 1,600 standards by 2020 (paragraphs 3.8 and 3.9).

The quality of apprenticeship training

15 Employers report high levels of satisfaction with the training offered and benefits experienced, but surveys of apprentices provide a less clear view on quality of delivery. In the most recent survey, 86% of employers said that they were satisfied with the training given, and around 75% stated that apprenticeships improved productivity. However, while almost 90% of apprentices were satisfied with their training, at the same time one in three Level 2 and Level 3 apprentices claimed to be unaware that the training they undertook constituted an apprenticeship. And one in five reported that they had not received any formal training at all, either at an external provider or in the workplace (paragraphs 3.12 to 3.14).

16 Ofsted reports suggest that, overall, around a fifth of training providers need to improve the quality of their training and the results they achieve. Ofsted inspects providers who have been rated as less than 'good' more frequently than other providers. Of the 190 apprenticeship programmes that Ofsted inspected during 2014/15, 72 (38%) were judged to require improvement and 21 (11%) were judged inadequate. The Skills Funding Agency will take formal intervention action in cases where a provider is rated inadequate by Ofsted. It may also intervene if a provider has failed minimum standards, for example if achievement rates fall below 55% in more than 40% of its provision. Cases are reviewed and, in the most serious instances, a provider may have its contract terminated or a college may be issued with a Notice of Concern. Between 2012/13 and 2014/15, 127 providers fell within the scope of formal intervention. Of these providers, four had their contracts terminated (paragraphs 3.15, 3.22, 3.23 and Figure 11).

Managing risks to apprenticeship quality and value

17 DfE is managing individual risks associated with delivery of components of the current change programme in an appropriate way. The Apprenticeships Directorate has embarked on a wide range of initiatives in support of the change programme outlined at paragraph 7. These initiatives include, for example, encouraging more small businesses to employ apprentices and increasing apprentice numbers in the public sector. The Directorate has been developing a formal delivery plan for many of the component initiatives. The delivery plans that were reviewed by us included the features of risk assessment that we would normally expect. In general the risks identified were set out clearly, along with details of who was responsible for managing them. We identified scope for project teams to be more consistent in the level of detail applied and the mitigating actions proposed. A Programme Management Office was formed in July 2016, whose role includes assuring consistent risk reporting and risk management processes (paragraphs 4.4 to 4.6 and Figure 12).

18 DfE is developing a more effective approach to managing cross-cutting risks to the programme's success, but further progress is necessary. DfE has a clear formal governance structure, allowing delivery teams to refer risks to the overall Programme Board, and to the departmental Risk Committee if required. During our fieldwork it was often unclear where teams had considered dependencies between different initiatives. By July 2016, the Apprenticeships Directorate had commissioned specialist support to develop dependencies, including the identification of a critical path. Delivery teams have been commissioned to prepare contingency plans if elements of the programme should not progress as expected. However, the contingency planning for funding reform, including the introduction of the levy, needs to continue to be developed, given that it is a particularly important risk element of the programme (paragraphs 4.7 to 4.9 and Figure 13).

19 DfE has not yet established what information it will need to monitor key behavioural risks and spot signals that these risks may be maturing. While it might reasonably expect the vast majority of employers, training providers and assessment bodies to act properly in response to reforms, a small minority may not behave as expected. Work on stakeholder behaviour has so far focused largely on risks connected with poor take-up of apprenticeships in response to the levy. After we concluded our fieldwork, DfE and the Skills Funding Agency established a new group to consider the risks of fraud and gaming that may arise from the apprenticeship reforms, but it is too early to say what impact this group will have. DfE now needs to expand its work on behavioural risks, and also ensure that it learns lessons from previous initiatives which have not turned out as planned, such as Individual Learning Accounts (paragraphs 4.10 to 4.13, Figure 14 and Figure 15).

Conclusion on value for money

20 DfE is undertaking the complex challenge of expanding and reforming the apprenticeships programme, while ensuring quality, to a tight time frame. It is still in the early stages of this transition, and is making progress in a number of areas. However, there remain some important gaps in its approach. At the most strategic level, DfE has not set out the collective impact that the programme is intended to achieve, how the increase in apprenticeship numbers can deliver the maximum gain in economic productivity, and how it will influence the mix of apprenticeships in order to deliver the most value. It has further to go in ensuring that all apprenticeships meet basic quality requirements, and that the quality of training is consistently high. Alongside this, DfE needs to strengthen its approach to managing some of the risks associated with a programme of this size and complexity, putting itself in a position to respond quickly and decisively should risks begin to emerge. DfE needs to take effective action in each of these areas if it is to put the reformed apprenticeships programme on a sound footing and thereby demonstrate that it is achieving value for money.

Recommendations

21 DfE should:

- a Set out the planned overall impact on productivity and growth, along with short-term key performance indicators to measure the programme's success.** DfE and the former Department for Business, Innovation & Skills have gained access to good data, and commissioned some valuable research. But beyond the target of 3 million new apprenticeship starts by 2020 it is not clear what constitutes 'success' for the programme.
- b Ensure that the timescale for further development of Trailblazer standards remains realistic, and is well communicated to employers and providers.** The timescale for implementing all of the new standards is a longer one than originally expected, extending the period during which new apprentices will continue to learn under the previous frameworks.
- c Improve the way that it handles key risks, interdependencies and contingencies across the various elements of the programme.** DfE has been slow to start treating the various initiatives as a coherent programme, and some elements of its risk management are still underdeveloped.

- d Do more to understand how employers, training providers and assessment bodies may respond to ongoing reforms, and develop robust ways of reacting quickly should instances of market abuse emerge.** So far, behavioural research has focused largely on the risk of low take-up. But there are other key risks arising from the market changes that need to be managed.
- e Determine the respective roles of government bodies and the Institute for Apprenticeships, with particular regard to: overseeing the quality of apprenticeship training; and collecting and analysing relevant data and metrics.** The employer-led Institute should begin operating in 2017. But there is an overly optimistic view of its potential to influence the way that employers and training providers deliver apprenticeships.