



National Audit Office

Report

by the Comptroller
and Auditor General

Department for Education

Delivering value through the apprenticeships programme

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Department for Education

Delivering value through the apprenticeships programme

Report by the Comptroller and Auditor General

Ordered by the House of Commons
to be printed on 5 September 2016

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

Sir Amyas Morse KCB
Comptroller and Auditor General
National Audit Office

11 August 2016

This report examines whether the Department for Education can demonstrate that the increasingly employer-led apprenticeships programme is achieving value for money.

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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.

Part One

Background

The UK productivity gap

1.1 The Office for National Statistics (ONS) estimates that Germany, France and the USA are each about a third more productive than the UK.¹ The UK's productivity gap to each of these countries is the widest since 1991 when comparable estimates began.

1.2 Research conducted in 2015 indicated that the productivity gap, particularly in relation to Germany and France, could be partially explained by the UK's lower emphasis on technician- and higher-level vocational education that combines on-the-job and off-the-job training.² The same research also noted that, for skills development to contribute to productivity growth, it should occur alongside investment in other factors, such as equipment, machinery and innovation.

1.3 There are substantial skills shortages in the UK. In 2015, the Employer Skills Survey, conducted by the UK Commission for Employment and Skills (UKCES), reported 209,000 vacancies which were hard to fill due to applicants lacking requisite skills, and around 1.4 million employees lacking some skills to be fully proficient in their current role. The most common technical skills gaps among applicants included specialised skills, knowledge to perform the role and problem-solving skills. The most common people and personal skills gaps included customer-handling skills and time management.

Apprenticeships as a route to skills development

1.4 Apprenticeships are considered to be a key route to skills development, and therefore a crucial part of government plans for growth and improved productivity.³ It is thought that, without government intervention, employers' investment in training, including apprenticeships, would be less than economically optimal. The UKCES reported in January 2016 that, among those employers who offer training, about half wanted to train more.⁴ The most common reasons given for not being able to provide more training were a lack of time and funds.

¹ Office for National Statistics, *International Comparisons of Productivity — Final Estimates 2014*, February 2016.

² House of Commons Business, Innovation & Skills and Education Committees, *Education, skills and productivity: commissioned research*, First joint special report of the Business, Innovation & Skills and Education Committees of Session 2015-16, HC 565, November 2015.

³ Department for Business, Innovation & Skills, *English Apprenticeships: Our 2020 Vision*, BIS/15/604, 2015.

⁴ UK Commission for Employment and Skills, *Employer Skills Survey 2015: UK Results – Evidence Report 97*, January 2016.

1.5 In England, an apprenticeship is a full-time paid job, available to those aged 16 or over, which incorporates on- and off-the-job training and leads to a nationally recognised certificate. Some people become an apprentice by joining a new employer; others begin an apprenticeship with their existing employer. Apprenticeships take at least one year to complete and several years to reach the highest levels, and are offered in around 1,500 job roles across a wide range of industries and professions.

1.6 Apprenticeships are available at various levels, depending on the requirements of the job role and the apprentice's existing qualifications. **Figure 1** explains these levels in more detail. Some apprenticeships require an assessment at the end of the programme to establish the apprentice's ability and competence in their job role.

1.7 The minimum wage for all apprentices aged 16 to 18, and for adult apprentices in their first year, is £3.30 per hour, rising to £3.40 from October 2016. After their first year, adult apprentices are entitled to the National Minimum Wage for their age. Employers may pay more than this, depending on the sector, level and local economic conditions.

1.8 While economic productivity and growth are the ultimate objectives of the programme as a whole, the government expects apprenticeships to add value in other ways. These include: improving outcomes for young people; and boosting diversity in the workplace, through better access to training and employment opportunities for ethnic minorities and those from poorer backgrounds.⁵

Figure 1
Apprenticeship levels

Name	Level	Educational equivalent
Intermediate	2	Five GCSEs at grades A* to C
Advanced	3	Two A levels
Higher	4, 5, 6 and 7	Diplomas, certificates and degrees
of which: Degree	6 and 7	Bachelor's or master's degree

Source: National Audit Office

⁵ Department for Business, Innovation & Skills, *English Apprenticeships: Our 2020 Vision, Executive Summary*, BIS/15/604, 2015.

Funding and oversight of apprenticeships

1.9 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.

1.10 In recent years, DfE has funded apprenticeships for 16- to 18-year-olds, while the former Department for Business, Innovation & Skills funded adult apprenticeships. They contribute part of the cost of training apprentices. The amount that they contribute depends on the age of the apprentice, the type of employer, and the type and length of apprenticeship. It ranges from around £2,000 to around £6,000 for many apprenticeships, although it can be as high as £28,000 for advanced and highly technical apprenticeships. Employers contribute up to 50% of the training cost, depending on the type of apprenticeship.

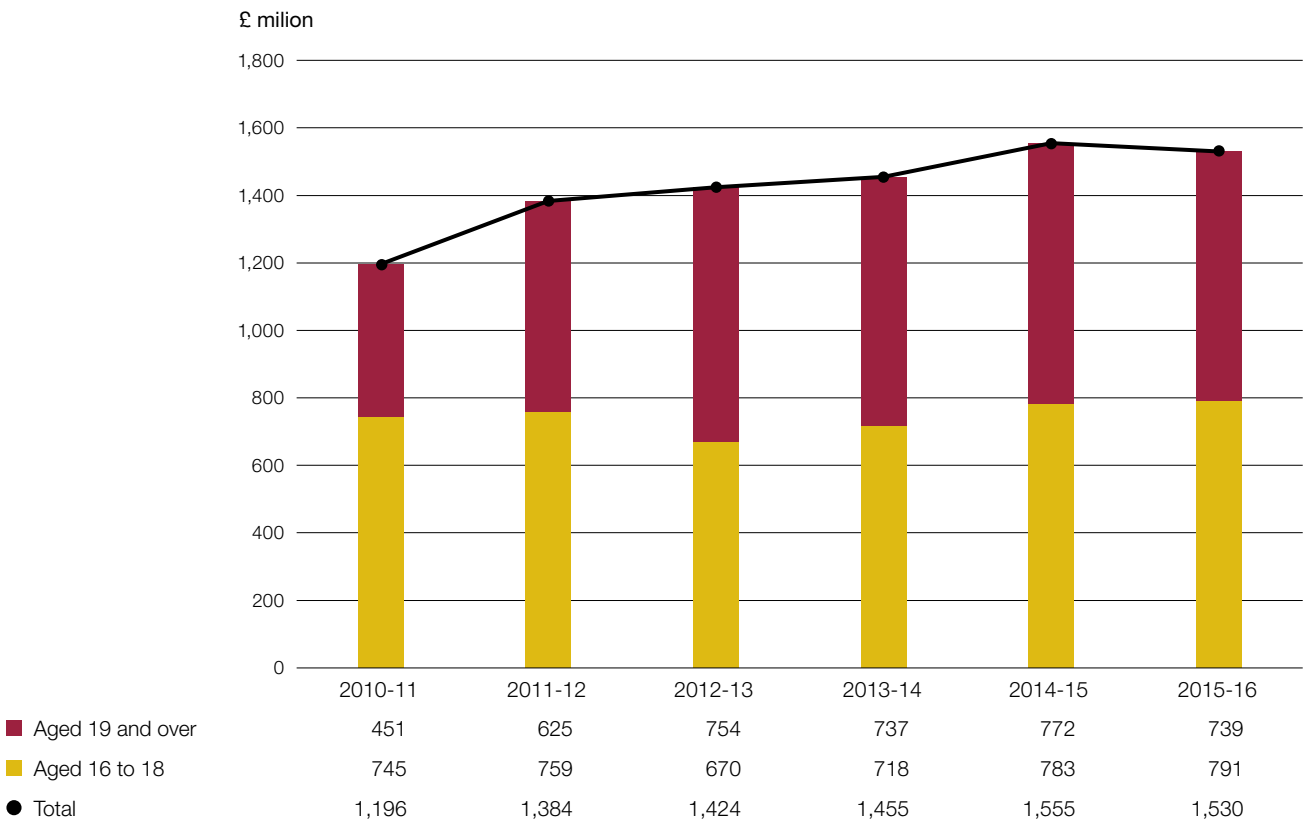
1.11 Annual public funding of apprenticeships has grown over time. In 2010-11, it amounted to just under £1.2 billion, but by 2015-16 the figure had risen to around £1.5 billion.⁶ This is a 28% increase in cash terms (**Figure 2** overleaf). Of this total, DfE contributed around £791 million, while the former Department for Business, Innovation & Skills contributed around £739 million. From April 2017, apprenticeships will be funded mainly by a new levy on employers (paragraph 1.16).

1.12 Other organisations are involved in delivering and overseeing apprenticeships. The Skills Funding Agency, an executive agency now accountable to DfE, allocates funding to, and oversees the performance of, over 800 training providers. These providers, which include colleges and commercial and charitable bodies, deliver the off-the-job training element of apprenticeships. Ofsted inspects the quality of training that these providers offer. The Office of Qualifications and Examinations Regulation (Ofqual) regulates the qualifications that most apprentices receive as part of their training. From 2017, a newly formed Institute for Apprenticeships will regulate the quality of apprenticeships. The funding, delivery and oversight arrangements that applied up to July 2016 are set out in **Figure 3** on page 17.

⁶ Throughout this report, financial years are written as, for example, '2015-16' and run from 1 April to 31 March, while academic years are written as '2016/17' and run from 1 August to 31 July.

Figure 2
Public funding for apprenticeships

Public funding for apprenticeships has generally risen in cash terms since 2010



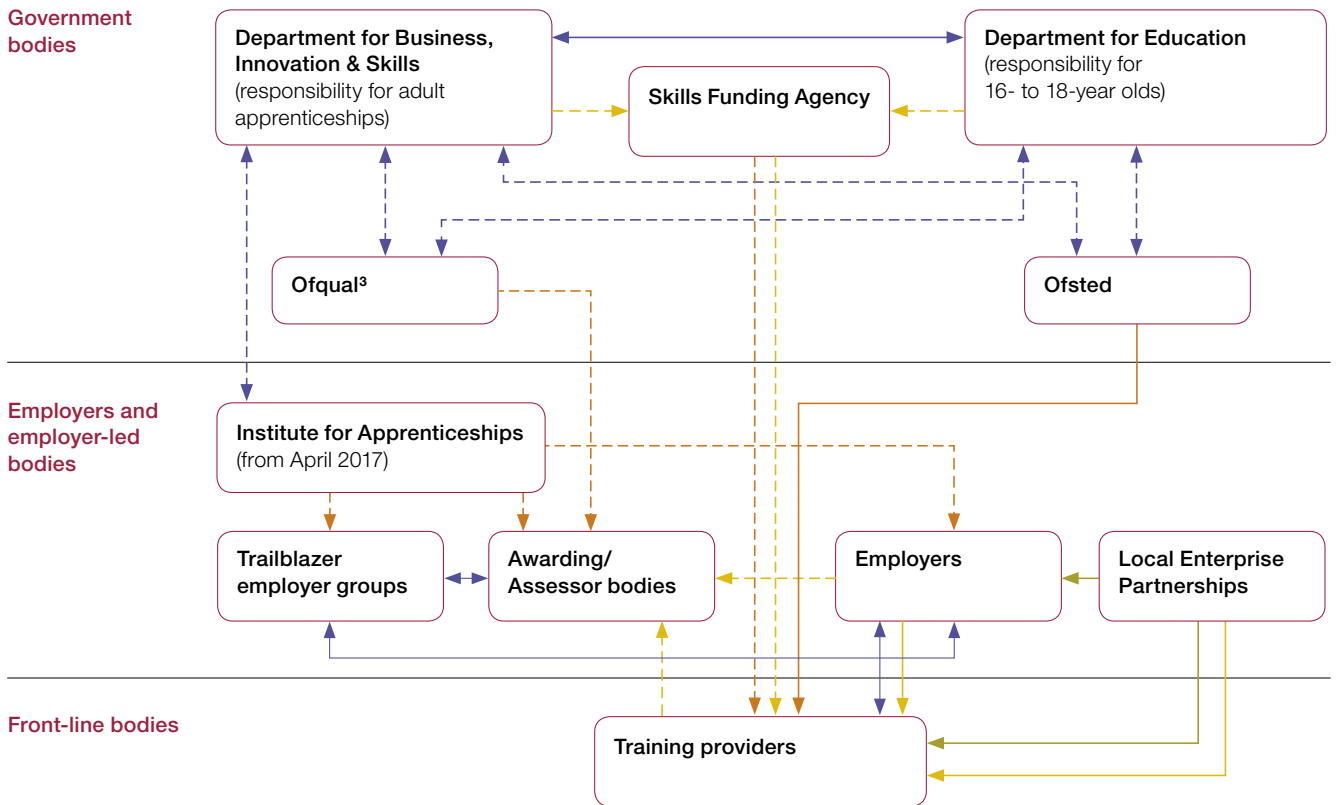
Note

1 Taking inflation into account, public funding for apprenticeships rose 15% from 2010-11 to 2015-16.

Source: National Audit Office analysis of Skills Funding Agency data

Figure 3

Key organisations involved in funding and overseeing apprenticeships up to July 2016



- Funding/payment
- Regulation, inspection and oversight
- Influencing
- Liaison and coordination
- -> Dashed arrows mean precise future
- -> Dashed arrows mean role is still to be determined

Notes

- 1 Higher education providers are overseen by the Quality Assurance Agency, rather than Ofsted.
- 2 Local Enterprise Partnerships provide funding for capital projects to training providers.
- 3 Office of Qualifications and Examinations Regulation.

Source: National Audit Office

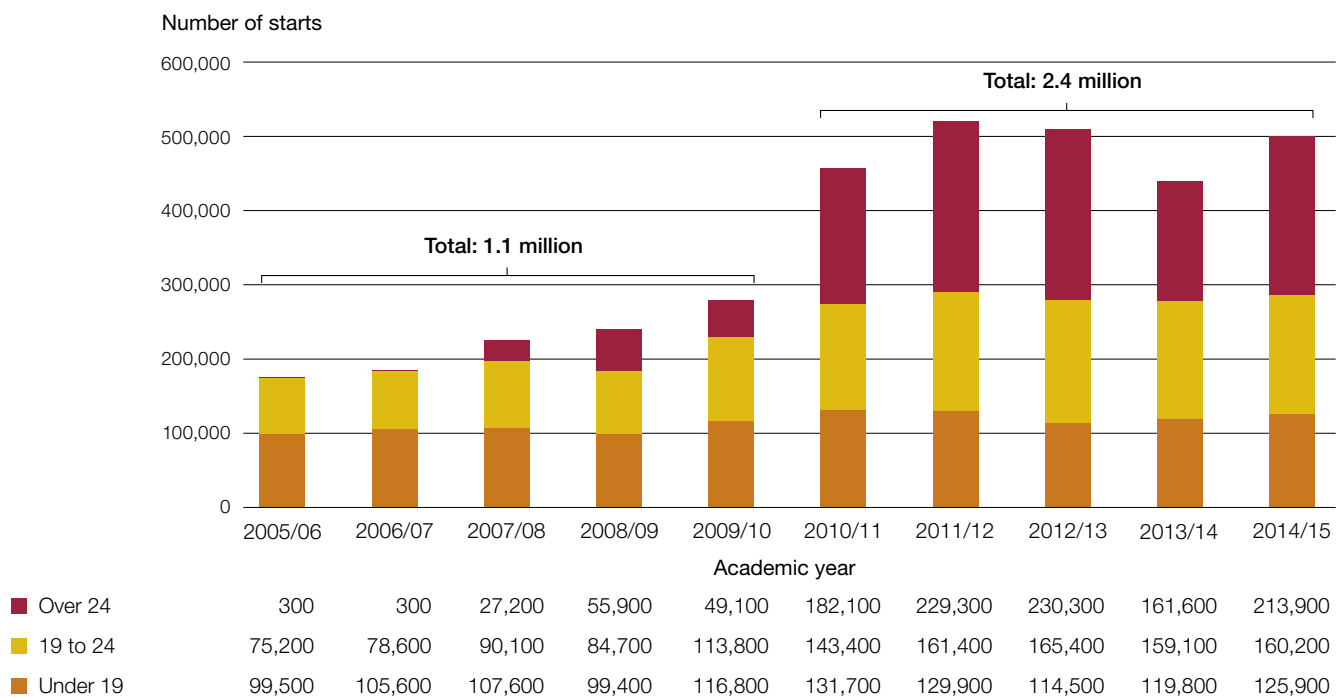
Apprenticeships in recent years

1.13 In recent years, there has been significant growth in the number of apprenticeships. In the five years from 2010/11 to 2014/15 (broadly equivalent to the last Parliament), there were around 2.4 million new starts, compared with around 1.1 million in the previous five years. Most of this growth came from those aged over 24. By comparison, there was little growth in the number of under-19s starting an apprenticeship (**Figure 4**).

1.14 Almost two-thirds (62%) of the apprenticeships started between 2010/11 and 2014/15 were at Level 2, while Level 4 to 7 apprenticeships made up less than 2% of the total (**Figure 5**). Around three-quarters of all new starts came from three areas: business administration, health and social care, and retail.

Figure 4
New apprenticeship starts by age, 2005/06 to 2014/15

About 2.4 million new apprenticeships started between 2010/11 and 2014/15



Note

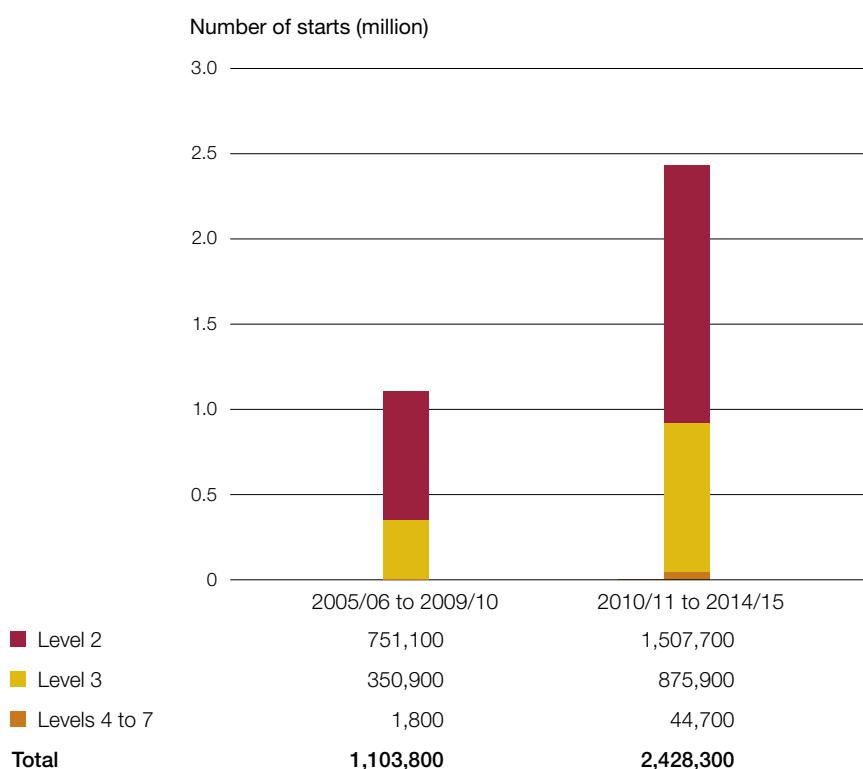
1 Figures have been rounded to the nearest 100.

Source: National Audit Office analysis of Department for Business, Innovation & Skills and Skills Funding Agency data

Figure 5

New apprenticeship starts by level, 2005/06 to 2014/15

About 62% of the apprenticeships started between 2010/11 and 2014/15 were at Level 2

**Notes**

- 1 Level 2 is broadly equivalent to GCSEs; Level 3 to A levels; and Levels 4 to 7 to higher education diplomas, certificates and degrees.
- 2 Figures have been rounded to the nearest 100.

Source: National Audit Office analysis of Department for Business, Innovation & Skills and Skills Funding Agency data

1.15 We last reported on the apprenticeships programme in 2012.⁷ Our report focused on adult apprenticeships, which had expanded significantly in number since 2006. We found that there were strong economic returns from advanced and intermediate apprenticeships, and that the programme was being well coordinated and managed. However, our report also concluded that rapid expansion presented risks, and in particular risks associated with short apprenticeships. We also found that the former Department for Business, Innovation & Skills was yet to collect robust evidence that the market was developing skills in the sectors, qualification levels and parts of the country where they were most needed.

⁷ Comptroller and Auditor General, *Adult Apprenticeships*, Session 2010–2012, HC 1787, National Audit Office, February 2012.

Apprenticeship reforms

1.16 DfE is expanding the apprenticeships programme further, while making it increasingly employer-led and employer-funded. DfE 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 the delivery of the programme:

- There is a policy objective to facilitate 3 million new apprenticeship starts during the period 2015 to 2020. DfE has introduced several initiatives to increase numbers, including: boosting public sector apprenticeships; encouraging more small businesses to employ apprentices; improving the programme's marketing and communications; and ensuring that apprenticeships are covered in careers advice and guidance.
- Groups of employers, known as Trailblazers, who represent their sectors or occupations, are coming together to design new apprenticeship standards. Ultimately these standards will replace all previous apprenticeship frameworks. This change is in response to concerns that apprenticeship frameworks did not always develop the skills, knowledge and behaviours that employers needed.
- From April 2017, apprenticeships will be funded mainly via a levy on employers. The levy will be set at 0.5% of pay bill, but with the first £15,000 of levy contribution waived. This means that only employers with pay costs over £3 million will contribute. The levy is expected to raise almost £3 billion per year. At the same time, funding will be routed to employers in the form of digital vouchers, to make it easier for them to choose and pay for the apprenticeship training and assessment they want. These reforms are intended to give employers more ownership of apprenticeship training, while shifting the balance of funding and giving employers incentives to take on more apprentices.
- In April 2017, an independent and employer-led Institute for Apprenticeships will be created. Its role will include regulating the quality of apprenticeships.

1.17 Figure 17 in Appendix Three is a timeline summarising developments within the programme.

Scope of this report

1.18 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 (Part Two);
- improving the quality of individual apprenticeships (Part Three); and
- managing risks to apprenticeship quality and value (Part Four).

Part Two

Defining the programme's aims and measuring success

2.1 This part examines:

- whether the Department for Education (DfE) has clearly set out the rationale for the programme;
- whether DfE has defined appropriate indicators of success for the programme; and
- how DfE is using data to better understand the impact of the programme.

Setting out the rationale for the programme

2.2 DfE believes that investment in apprenticeships is worthwhile because the investment typically pays for itself quickly, through improvement in apprentices' productivity.⁸ However, improving skills in the workforce is only one way to improve productivity. There are many other ways, such as investing in equipment or new technology. These approaches may be used in combination, in order to achieve the optimum results. It is therefore important to provide a clear strategic rationale for how increasing the number of apprenticeships fits into the wider plan for improved productivity and growth.

2.3 The government's latest productivity plan emphasises the need to increase apprenticeship numbers, and explains the steps being taken to achieve this.⁹ However, DfE has not set out how it will use the increase in apprenticeship numbers to deliver improvements in productivity economy-wide, and in particular how it will manage the various trade-offs in terms of cost and added value. This rationale should explain: the collective impact on productivity and growth that the programme should achieve; the factors upon which such an impact is dependent, such as parallel investment in technology; and how DfE plans to balance the drive for increased numbers with the need to prioritise the apprenticeships that offer most value. Without this strategic underpinning, there is a clear risk that the programme will fail to deliver its intended benefits.

⁸ Department for Business, Innovation & Skills, *English Apprenticeships: Our 2020 Vision*, BIS/15/604, 2015.

⁹ HM Treasury, *Fixing the foundations: Creating a more prosperous nation*, Cm 9098, July 2015.

Defining appropriate success indicators

2.4 To achieve most value, the apprenticeships programme has to raise skills levels across the economy and successfully meet skills needs. It is not enough for individual apprenticeships to be high quality; where shortages of skills are holding back productivity and growth, sufficient numbers of apprentices need to be training, in the right areas and at the right levels, to meet these needs.

2.5 DfE has not defined what success will look like for the programme, in terms of intended impact on skills levels within the economy, nor what indicators they will use to measure success. The former Department for Business, Innovation & Skills' single departmental plan, published in February 2016, indicated that it would 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 by 2020. But there are no discrete success indicators in other areas, which might include, for example:

- **apprenticeships in specific areas:** the extent of growth in apprenticeship starts on certain apprenticeships that are being encouraged, such as those in technical subjects or at higher levels;
- **skills gaps:** the extent to which the programme is filling reported skills gaps; and
- **outcomes:** the impact that quality reforms are expected to have on, for example, achievement rates or apprentice outcomes, including in high-priority subjects, levels or regions.

2.6 Without establishing which indicators it should use to judge whether the apprenticeships market is working in the right way, DfE cannot know whether its systems and incentives are having the desired effect. It also limits its understanding of whether it is collecting the right data or analysing it effectively.

2.7 DfE has also not defined who will be accountable for the success of the programme in the longer term. There are a number of bodies involved in overseeing apprenticeships, but it is not clear which of them is responsible for the various elements of the programme and its reforms, or how they will be held to account. DfE has suggested that measuring the programme's success is something the new Institute for Apprenticeships might take on from 2017, alongside its other roles. However, it is unclear what the Institute's exact responsibilities for apprenticeship standards will be, and particularly how its role will fit alongside the responsibilities of other oversight bodies including Ofsted, the Office of Qualifications and Examinations Regulation (Ofqual) and the Skills Funding Agency (SFA).

Understanding the impact of the programme

2.8 Our 2012 report on adult apprenticeships found that there was scope to develop a better understanding of the apprenticeships that had the most impact, and where they added the most value relative to public funding.¹⁰ This information would allow better targeting of resources.

2.9 DfE is now in a stronger position to gain these insights because it has access to a good range of information on skills needs, the places where apprenticeships are being undertaken, and apprentices' destinations and earnings. Key sources of information are as follows:

- Datasets on skills needs come mainly from the UK Commission for Employment and Skills (UKCES) and the Office for National Statistics. These include the Employer Skills Survey, labour market projections, the Labour Force Survey and migration data. It is, however, unclear whether DfE will continue to have access to datasets on skills needs, given that a review of both the Employer Skills Survey and its sister survey the Employer Perspectives Survey may result in changes in their coverage and content. The management of both surveys will transfer from UKCES to DfE during the summer of 2016.
- Since 2015, the former Department for Business, Innovation & Skills has been able to obtain HM Revenue & Customs (HMRC) earnings data, and associated employment data from the Department for Work & Pensions.
- The SFA collects extensive data on apprenticeships, including through its Individualised Learner Record.

2.10 This information provides the opportunity to conduct a range of analyses. So far, these analyses have focused on establishing the benefits to individuals, and the wider economic returns, that different types of apprenticeship deliver. The information is also being used to develop better ways of measuring what happens to successful apprentices once they have completed their training.

Analysing wage premiums and economic returns

2.11 To understand whether the market is working effectively, and to assess the overall economic benefit of the programme, DfE needs to compare economic data for apprentices with similar data for those pursuing other learning routes. The former Department for Business, Innovation & Skills used HMRC earnings data to examine 'wage premiums', which are the increased earnings that successful apprentices enjoy compared with those who fail to achieve their apprenticeship.

2.12 The results show that there is significant variation in wage premiums between different sectors and levels, including some particularly high wage premiums in the engineering and construction sectors. But the sectors and levels with the biggest wage premiums are generally not those with the highest numbers of apprenticeships and most growth in the last five years. Some apprenticeships may offer only a similar wage premium to the equivalent classroom-based learning (**Figure 6** overleaf).

¹⁰ Comptroller and Auditor General, *Adult Apprenticeships*, Session 2010–2012, HC 1787, National Audit Office, February 2012.

Figure 6
Estimated wage premiums by sector and level

Only a minority of recent apprenticeships have been in sectors, and at levels, that command the highest wage premiums for apprentices

Sector subject area	Level 2 education			Level 3 education		
	Classroom-based learning wage premium (%)	Apprenticeship wage premium (%)	Proportion of apprenticeships, 2010/11 to 2014/15 (%)	Classroom-based learning wage premium (%)	Apprenticeship wage premium (%)	Proportion of apprenticeships, 2010/11 to 2014/15 (%)
Business and administration	10	9	18.6	10	11	10.3
	12	10		12	7	
	10	10		-	8	
Health, public services and care	-	-	12.0	13	-	10.5
	24	27		8	-	
	10	10		13	18	
Retail and commercial	-	10	15.9	-	10	4.2
Engineering and manufacturing	10	17	8.2	13	26	5.3
	10	17		10	25	
Construction, planning and the built environment	16	11	2.6	13	32	0.8
ICT	11	20	1.3	6	14	1.9
Leisure, travel and tourism	-	-	2.0	-	-	1.3

Notes

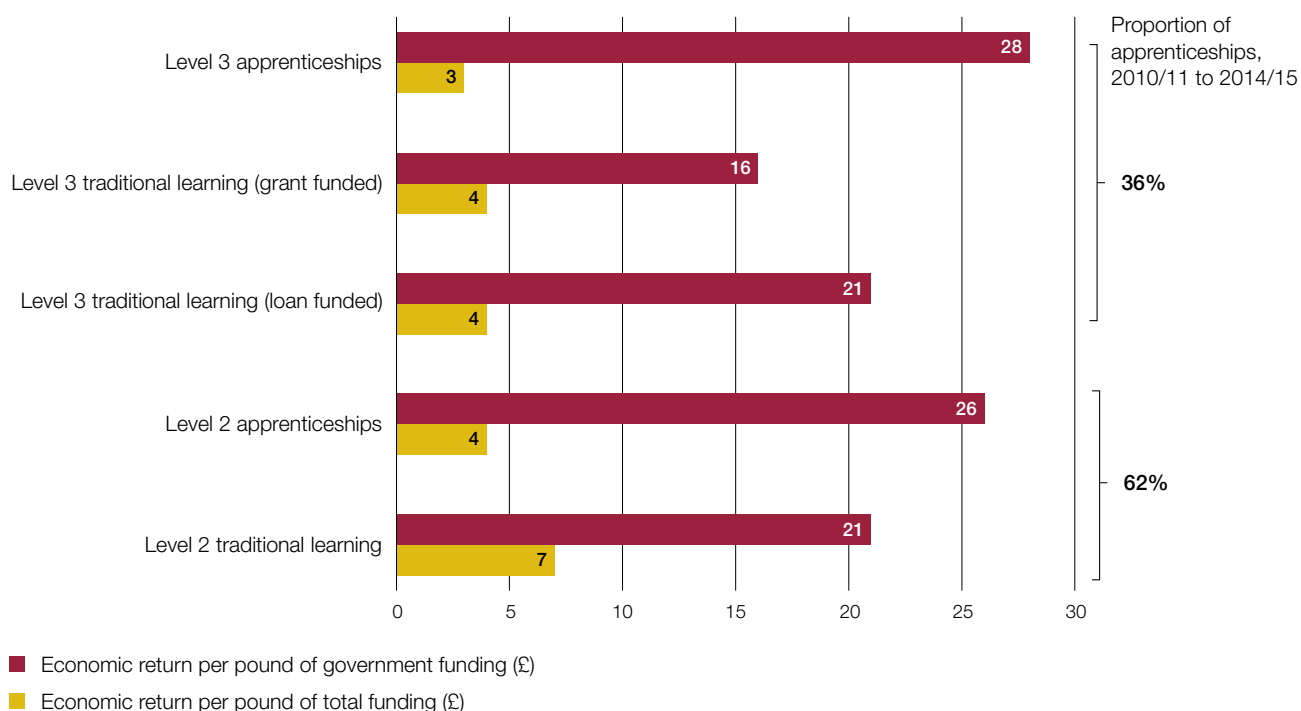
- 1 Grey boxes = apprenticeships with substantial wage advantage over classroom-based learning.
- 2 The table compares wage premiums by sector subject area and level for apprenticeships and classroom-based learning. Wage premiums are measured as earnings three to five years after successful completion between 2004/05 and 2010/11, compared with the earnings of those who failed to achieve their learning aim.
- 3 - means the wage premium is either statistically indistinguishable from zero or not available.

Source: National Audit Office analysis of Department for Business, Innovation & Skills research and data

2.13 The former Department for Business, Innovation & Skills also extrapolated wage premiums to estimate overall economic returns on investment from apprenticeships, and to compare the economic returns offered by apprenticeships versus school or college learning routes. On average, apprenticeships at Levels 2 and 3 provide a greater return per pound of government funding than traditional learning. But the advantage fades away when total funding from government, employer and learner is considered. This is particularly the case, on average, for Level 2 apprenticeships, which made up more than 6 in 10 (62%) of all apprenticeships between 2010/11 and 2014/2015 (**Figure 7**). We would expect these trends to vary significantly by sector subject area, in a similar way to wage premiums, but this analysis has not yet been carried out.

Figure 7
Estimated return on investment by level

On average, the advantage of apprenticeships over traditional learning fades away when total funding is considered



Notes

- 1 Total funding includes funding provided by government, employers and learners.
- 2 Return on investment considers the benefits to the UK economy over the life time of the learners starting courses in 2013/14, taking into account that some will not achieve (and no benefits are assumed for these non-achievers).

Source: National Audit Office analysis of Department for Business, Innovation & Skills research and data

2.14 The research on wage premiums and return on investment appears robust, and research commissioned by other organisations has reached similar conclusions. The research provides a basis for understanding how to achieve the best value from the programme. In particular, the research clearly shows the additional benefit arising from apprenticeships in particular sectors, and in general from apprenticeships at Level 3. But DfE explained to us that it has not used these findings to encourage changes in the balance of apprenticeships, because its approach is to give employers control and not to actively influence the sectors and levels where apprenticeships take place.

Outcome-based measures

2.15 DfE and the former Department for Business, Innovation & Skills developed new outcome-based measures, which will be used from summer 2017. The measures use data from HMRC to analyse the employment and earnings outcomes of apprentices who successfully complete their apprenticeship, as follows:

- **sustained positive destination:** the proportion of adult learners (including apprentices) who progress to a sustained destination in learning, employment or both, six months after successfully completing their further education learning; and
- **earnings outcomes:** average earnings three years after completing an apprenticeship.

2.16 Used alongside achievement rates, the measures should provide better information to hold training providers to account for the skills, knowledge and behaviours that they teach apprentices. Deployed more broadly, the measures should also provide clear additional insights into the benefits being delivered by the programme.

Part Three

Improving the quality of individual apprenticeships

3.1 This part examines:

- the introduction of employer-designed apprenticeship standards;
- the quality of the training delivered; and
- monitoring and oversight arrangements.

Introducing employer-designed apprenticeship standards

3.2 Successive governments have taken steps to reform apprenticeships. For many years, an apprenticeship has been taught to a ‘framework’ which sets out the skills and knowledge the apprentice should demonstrate. Frameworks were designed by sector skills councils and organisations, with varying levels of input from employers, training providers and other groups. But stakeholders had raised concerns that many frameworks did not provide all the skills an apprentice needs.

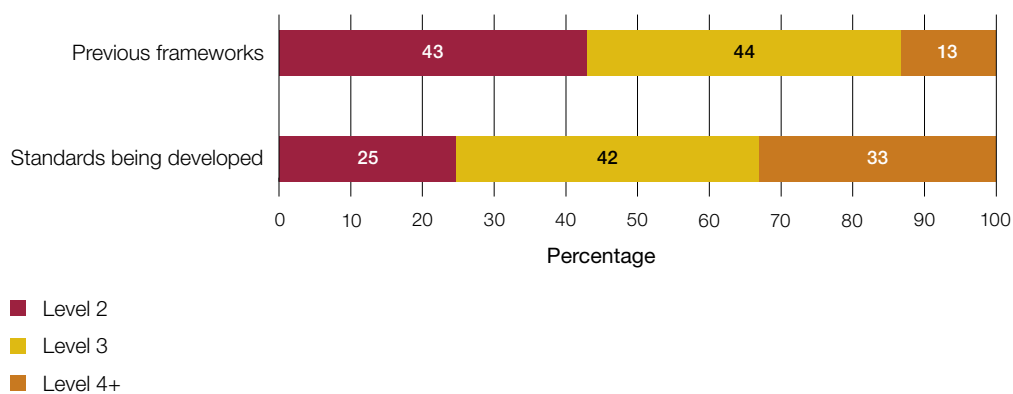
3.3 In October 2013, the Department for Education (DfE) and the former Department for Business, Innovation & Skills began a process to develop new apprenticeship ‘standards’, which will eventually replace all previous frameworks. Each new standard is designed by a group of employers, called a Trailblazer, from the relevant sector or industry. The standard is accompanied by an assessment plan, detailing how apprentices will be evaluated to determine whether they meet the standard.

3.4 A recent survey commissioned by the former Department for Business, Innovation & Skills found that just over half of employers involved in developing the new standards considered them to be an improvement on the frameworks, while a quarter felt it was too early to say.¹¹ Similarly, employer groups we spoke to generally consider that the new standards may help to address limitations in the previous frameworks. In particular, many believe the standards offer:

- a greater focus on training and assessing behaviours, in addition to skills and knowledge, which was missing from the previous frameworks;
- a succinct and easily-understood definition of the core elements of each standard, which must relate to a specific occupation; and
- the opportunity to develop a greater range of apprenticeships at higher levels, including degree apprenticeships – Trailblazer standards developed so far are weighted more towards higher levels than the previous frameworks, though this does not necessarily mean that the actual numbers of apprentices at different levels has changed (**Figure 8**).

Figure 8
Apprenticeship frameworks and Trailblazer standards by level

Trailblazer standards developed so far are weighted more towards higher-level apprenticeships than the previous frameworks



Notes

- 1 The standards developed so far only cover a minority of subject areas, so do not indicate what the final proportions will look like, nor the likely numbers of actual apprentices at different levels.
- 2 Proportions are estimated based on framework levels that had at least five apprenticeship starts in 2014/15, and confirmed or indicative levels for Trailblazer standards developed or in development as at January 2016.

Source: National Audit Office analysis of Skills Funding Agency data

11 Department for Business, Innovation & Skills, *Apprenticeships evaluation: employer survey 2015*, BIS research paper 288, May 2016.

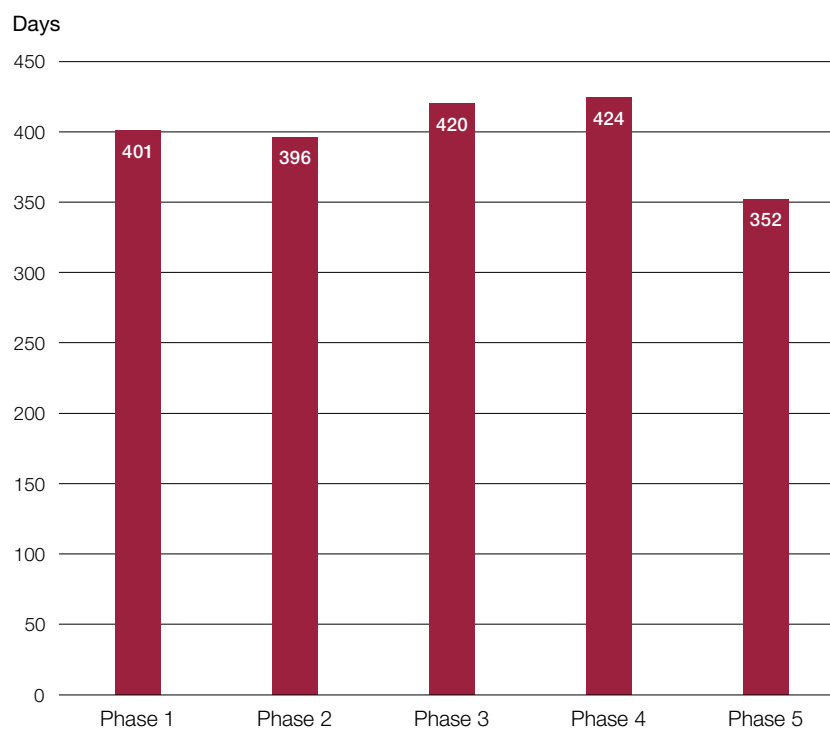
3.5 DfE is improving awareness of these changes among employers and potential apprentices, and particularly of the degree apprenticeships that many larger employers believe will make a significant impact. However, there is more work to be done. The survey found that only a quarter of employers were aware of the new standards, and only 12% had any knowledge of what they involve. Crucially, only 8% of employers surveyed said they intend to offer the new standards within the next five years. During our fieldwork, we also found that awareness of the reforms remains low among small businesses, a group which employs around half of all apprentices.

3.6 The activities of the earliest Trailblazer employer groups were treated as pilots, and offered a valuable opportunity to learn lessons and refine the process. For example, Trailblazer groups are now able to submit the various stages of a standard's development (initial expression of interest, draft standard, and draft assessment plan) every month, rather than quarterly. This allows the groups to respond to queries from DfE more quickly and reduce delays. DfE believes that these changes have contributed to the latest phase of standards being approved in less time than previous phases (**Figure 9**).

Figure 9

Time taken to approve Trailblazer standards

The average time taken to fully develop an approved standard fell in Phase 5



Note

1 For each phase of the Trailblazer standards, the data refer to the average time between development of a standard starting and that standard being fully approved.

Source: Department for Business, Innovation & Skills data

3.7 Nevertheless, the process has been resource-intensive and has taken longer than DfE envisaged, limiting the impact of the new standards. In particular:

- The previous commitment was to have all apprenticeships starting on the new standards by 2017. DfE and the former Department for Business, Innovation & Skills 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. As at April 2016, only around 2,600 people had started an apprenticeship under the new standards, out of 884,000 starts in total between August 2014 and April 2016. All other apprenticeships started by this point were under the previous frameworks.
- Approval of the latest phase of standards took, on average, nearly a year (Figure 9). Employers involved in designing the standards have expressed concern about the amount of time they have to invest at their own expense. Many are also confused by changes in guidance relating to the standards-development process.

3.8 Some employers and industry representative groups are also concerned that the current approach is leading to a large number of narrow and overlapping standards that 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. In a few cases, between five and 10 standards covered occupations within the same occupational classification.¹²

3.9 We found that the large number of groups and, in some cases, competing interests among the employers involved have led to more standards being developed than had originally been envisaged. By April 2016, there were 88 Trailblazer groups which each had at least one standard in development. It is currently predicted that there could be as many as 1,600 standards by 2020, compared with 224 previous frameworks. The Apprenticeships Directorate informed us that some increase should be expected, since many of the previous frameworks covered multiple occupations whereas standards are generally intended to cover a single occupation.

The quality of apprenticeship training

3.10 An effective apprenticeship is a job that consists of good work experience and workplace support, supplemented by high quality off-the-job training. The increase in apprenticeship numbers, along with major reforms to the programme, poses potential risks to the quality of training. Introducing the new apprenticeship standards is not in itself likely to improve the way that training is delivered in the short term.

3.11 Three of the most important indicators of the quality of apprenticeship training are: the views of employers and apprentices; findings from Ofsted inspections of providers; and apprentices' achievement rates. Together, they paint a mixed picture.

¹² Standard Occupational Classifications, as defined in 2010.

Findings from surveys of employers and apprentices

3.12 The former Department for Business, Innovation & Skills commissioned annual evaluation surveys of employers and apprentices from 2012 onwards, and the latest of these surveys was conducted in 2015. Each year, researchers sought the views of around 4,000 employers and 5,000 Level 2 and Level 3 apprentices.

3.13 The 2015 employer survey found that 86% of the employers surveyed were satisfied with the quality of the training offered, and 75% reported that apprenticeships improved productivity.¹³ Previous employer surveys generated similar findings.

3.14 The surveys of apprentices provide a less clear view on quality of delivery. Almost 90% of apprentices in the most recent survey were at least satisfied with their training, and around 70% were 'very' satisfied.¹⁴ But other findings were less positive. The latest *Statement on apprenticeship quality* says that apprenticeships must include: a real job under a contract of employment, at least 30 hours' work per week and lasting for at least 12 months (except where prior attainment allows for shorter duration); and a minimum level of training (at least 20% of the time spent in off-the-job training for new standards).¹⁵ Yet the survey found the following:

- One in three apprentices was unaware that the training they were undertaking constituted an apprenticeship. This finding has been broadly consistent since the 2012 survey.
- One in five apprentices stated they had not received any formal training, either at an external provider or in the workplace. This finding has also remained broadly consistent in each annual survey.
- Around 6% of apprentices said that their apprenticeship was intended to last for fewer than 12 months. This represents an improvement on previous years, having fallen from about one in three in 2014 and about one in two in 2013.

Inspection ratings

3.15 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 uses a risk proportionate approach, employing risk assessment to determine which providers are most in need of inspection. Providers that are not yet judged to be 'good' receive inspections at shorter intervals, alongside monitoring visits, and so are inspected more frequently than those which are judged to be 'good' or better. Of 190 apprenticeship programmes inspected during 2014/15, 72 (38%) were judged to require improvement and 21 (11%) were judged to be inadequate. This affected around 73,000 apprentices.¹⁶ However, the same report also noted some examples of high-quality apprenticeship training being delivered, particularly in the construction and engineering industries.

¹³ See footnote 11.

¹⁴ Department for Business, Innovation & Skills, *Apprenticeships evaluation: learner survey 2015*, BIS research paper 287, May 2016.

¹⁵ Skills Funding Agency, *Statement on apprenticeship quality*, available at: www.gov.uk/government/uploads/system/uploads/attachment_data/file/393819/Statement-on-Apprenticeship-QualityV1.pdf

¹⁶ Ofsted, *Annual Report 2014/15: Education and Skills*, December 2015.

3.16 Ofsted has also raised concerns about the way some employers use apprenticeships. Its October 2015 report commented on some employers, particularly in the retail and care industries, that were using apprenticeship funding to accredit low-level skills among existing employees.¹⁷

Achievement rates

3.17 To achieve an apprenticeship qualification under the previous frameworks, apprentices must demonstrate their competence on all framework components. Under the new Trailblazer standards, apprentices must pass an end-point assessment.

3.18 Around seven in ten (72%) apprentices achieved their apprenticeship in 2014/15. This was a drop from 76% in 2010/11. Achievement rates for higher and degree apprenticeships initially rose to 85% in 2010/11, but then fell substantially to 64% by 2014/15 (**Figure 10**). There are also differences in achievement rates between sector subject areas, for example:

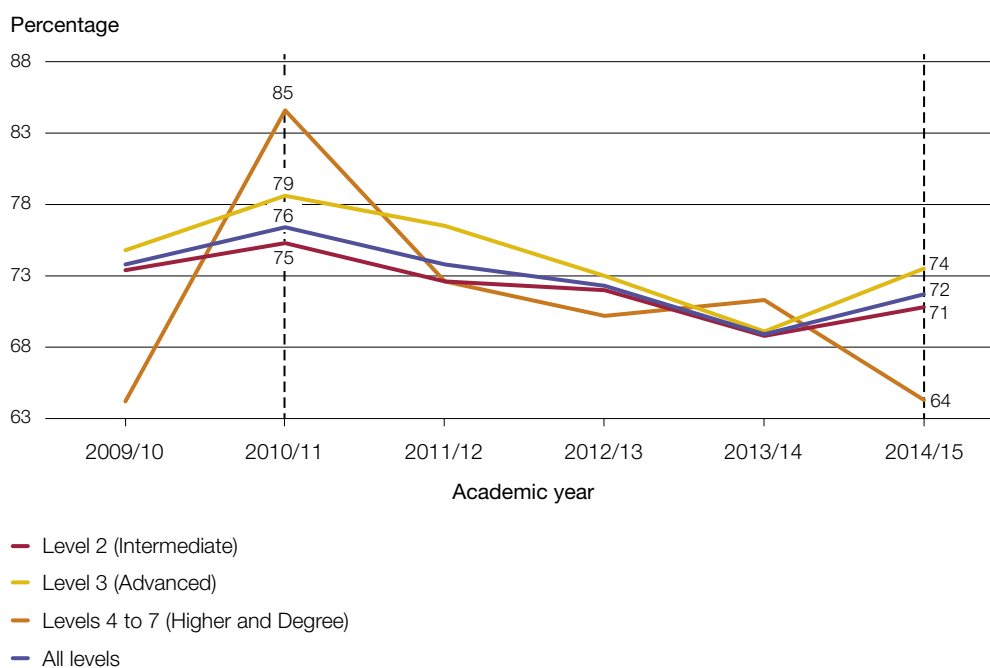
- Information and communication technologies had the highest achievement rate in 2014/15, at 79%, which was the same level as in 2011/12.
- Retail, which saw the third largest number of apprenticeship starts between 2010/11 and 2014/15, had one of the lowest achievement rates in 2014/15, at 69%.
- Business and administration, which had the largest number of apprenticeship starts in the four years to 2014/15, saw one of the largest falls in achievement rates to 71% in 2014/15, down from 76% in 2011/12.
- Health, public services and care, the second largest subject area by number of apprenticeship starts in the four years to 2014/15, had a slightly below-average achievement rate of 71% in 2014/15, the same as in 2011/12.
- Construction, a sector that has traditionally struggled with skills shortages, had a below-average achievement rate of 70% in 2014/15, down from 72% in 2011/12.

3.19 Apprentices can fail to achieve for reasons outside their control, such as their employer going out of business or the removal of short-duration apprenticeships. These factors may affect different types of apprenticeship in different professions in various ways. In addition, the mix of apprenticeship frameworks, and the age profile of those taking them, have changed significantly over the years. As such, care should be taken when comparing achievement rates across levels and sector subject areas, and over time.

Figure 10

Achievement rates for apprentices

Overall, around seven in 10 apprentices achieve their apprenticeship



Source: National Audit Office analysis of Skills Funding Agency data

3.20 DfE analyses falls in achievement rates and other aspects of quality, but does not systematically monitor the evidence base to provide a coherent overall picture of the different factors that may be affecting changes in rates. The reduction may partly reflect stronger quality requirements such as minimum length of apprenticeships and more rigorous assessment. But the pattern could also reflect poorer performance by training providers, or increasing numbers of unsuitable candidates starting on apprenticeships. In 2013, traineeships were introduced, which are short pre-apprenticeship programmes designed to improve young people's basic skills and experience of the workplace. DfE believes that changes to the design of apprenticeships, aimed at improving quality, mean that achievement rates are less important because those who fail to formally achieve will still benefit from high-quality skills training. However, DfE does not have evidence that those who fail to achieve are still benefiting materially from their apprenticeships.

3.21 In 2014/15, 97 training providers (12% of all providers) failed to meet the Skills Funding Agency's (SFA's) minimum standards for the proportion of apprentices who achieved their apprenticeship. The SFA required providers to demonstrate a minimum 55% achievement rate for apprenticeships, which compared with a minimum 75% for A levels and GCSEs, and between 63% and 75% for all other qualification types. The SFA is increasing the minimum achievement rate that it expects for apprenticeships, which will be 65% in 2016/17.

Monitoring and oversight arrangements

Overseeing the performance of training providers

3.22 The SFA and Ofsted make use of each other's assessments when making judgements on training providers. Ofsted considers trends in achievement rates as part of the inspection evidence gathered, but this is only one source of evidence used to judge the quality of training. Similarly, the SFA uses achievement rates, Ofsted's inspection results and a number of other mechanisms to decide on informal 'early intervention' where providers appear to be underperforming. Achievement rates below minimum standards for small amounts of provision may not in themselves trigger early intervention. The SFA will take formal intervention action in cases where a provider is rated inadequate by Ofsted.

3.23 Providers with an achievement rate lower than 55% for more than 40% of their provision in any one year may face formal intervention. The SFA decides whether to intervene formally using a wide range of information on providers. Where it intervenes, the SFA may issue a 'Notice of Concern' or a 'Notice of Serious Breach'. In the most serious cases, a provider may have its contract terminated. The formal intervention actions taken, during the last three years for which information is available, were as follows (**Figure 11**). There will have been further cases where formal intervention was not required because contracts expired.

Figure 11

Formal intervention actions conducted by the Skills Funding Agency, 2012/13 to 2014/15

Between 2012/13 and 2014/15, four out of 127 providers that were in scope for formal intervention had their contracts terminated

Year	Number of providers	Number of providers in scope for formal intervention	Percentage of providers in scope for formal intervention (%)	Actions taken		
				Notices of Concern issued	Notices of Serious Breach issued	Terminations of contract issued
2012/13	753	35	4.6	13	6	3
2013/14	776	48	6.2	20	2	0
2014/15	780	44	5.6	7	2	1

Source: Management information from the Skills Funding Agency

Overseeing the progress of individual apprentices

3.24 There are currently two systems for overseeing the progress of individual apprentices. One is applicable to apprenticeships delivered under the previous frameworks, while the other is applicable to the new employer-designed standards:

- Under frameworks, training providers assess apprentices, and ensure they have demonstrated all the required competencies over the course of the apprenticeship. Awarding bodies are accountable for these assessments, and have verification arrangements to ensure the quality of the awards made in their name. The Office of Qualifications and Examinations Regulation (Ofqual) regulates the awarding bodies.
- Under the new standards, providers deliver the training and monitor apprentices' progress, but the key assessment is made at the end of the apprenticeship by assessment bodies chosen from a list maintained by the SFA. Assessment bodies are responsible for ensuring that assessors are independent from the training provider and the employer as well as for the judgements that the assessors make. Training providers will need to increasingly adopt this new approach involving end-point assessment as more apprentices start under the new standards, but they will need to operate in two different ways while the dual system is in place.

3.25 This dual system is likely to last until at least 2020, when the new standards are scheduled to have replaced the previous frameworks. In the meantime, providers face the challenge, and increased administrative costs, of assessing apprentices who are learning under frameworks while phasing in an increasing number of independent end-point assessments for apprentices learning under the new standards.

Part Four

Managing risks to apprenticeship quality and value

4.1 This part examines how the Department for Education (DfE) is managing:

- individual risks;
- risks at a strategic level; and
- particular behavioural risks that apply to the programme.

The need for strong risk management

4.2 As described in paragraph 1.16, DfE aims to increase the overall number of apprenticeships, while also improving the quality of apprenticeship training and changing funding arrangements. It has embarked upon a wide range of initiatives in order to support these aims. The key initiatives are described in **Figure 12**.

4.3 This amount of change creates both opportunities and risks. We would therefore expect DfE and the former Department for Business, Innovation & Skills to have put in place arrangements to manage the range of risks that might affect the success of the programme as a whole, and the quality of apprenticeships in particular.

Figure 12

Component initiatives supporting the development of the programme

Expanding numbers	Strengthening quality of training	Delivering higher economic value
Funding reforms	Introducing new Trailblazer standards	Encouraging more degree and higher apprenticeships
Increasing apprentice numbers in public sector employers	Setting up the new Institute for Apprenticeships	Careers advice and guidance
Encouraging more small businesses to employ apprentices	Prompting training providers to provide the type of apprenticeships that employers want	
Engaging better with large businesses		
Marketing and communications		
Careers advice and guidance		

Source: National Audit Office summary of Department for Business, Innovation & Skills information

Managing individual risks

4.4 At the time of our fieldwork, formal delivery plans were being developed for many of the key initiatives listed at Figure 12. The delivery plans that were available for us to examine included the features of risk assessment that we would normally expect. Each plan contained an explicit register of associated risks, covering: a description of the risk; the likelihood of the risk maturing; the probable impact if the risk should mature; steps to be taken to mitigate the risk; and the individual responsible for the risk. In general, the risks identified were clearly set out, and we did not observe any inconsistencies in the treatment of likelihood and impact.

4.5 However, the plans were not wholly consistent in the way they identified and assessed risks, and could be improved in two key regards:

- The delivery plans set out key risks in varying levels of detail. For example, the delivery plan on support for smaller businesses identified only five risks, while the one on support for larger business identified 23 risks. This suggests that teams are taking quite different approaches, which may lead to risks being managed inconsistently.
- Mitigating actions often appear to be underdeveloped. For example, some refer only to the need for 'regular monitoring' or 'proactive' management. This increases the likelihood of the risk registers being just a paper exercise, rather than an effective mechanism for controlling the project.

4.6 Subsequent to our fieldwork, the decision was made to create a central Programme Management Office. One of its key responsibilities will be to assure consistent risk reporting and risk management processes. The first members of the team took up post in July 2016.

Managing risks at a strategic level

4.7 In February 2016, the governance structure for the programme was revised and strengthened. Individual boards dealing with elements of policy development, policy delivery and stakeholder management now report to an overall Apprenticeships Programme Board, chaired by the Director of Apprenticeships. This structure provides the opportunity for individual boards to refer risks to the Programme Board for consideration. Further work on governance arrangements is under way, which is intended to enable clearer escalation of strategic risks to the Programme Board, and to the departmental Risk Committee if required. Examples of potential strategic risks are set out in **Figure 13** overleaf.

Figure 13

Cross-cutting risks to the success of the programme

Type of risk	Explanation
Example 1: Quality risk	Efforts to expand numbers may draw attention away from matters of quality or economic value, leading to: too many low-value apprenticeships at the expense of high-value ones; many new starters unsuitable for their apprenticeships and higher dropout rates; or employers being incentivised to use the programme to reduce their salary bill.
Example 2: Financial risk	There is a tension between higher level (and therefore mostly more expensive) apprenticeships and the drive to expand numbers within a fixed pool of funding. Higher dropout rates and more low-cost, low-value apprenticeships (see Example 1) would reduce this risk. DfE will face an increased challenge if it cannot fund the apprenticeships taken up from the levies raised.
Example 3: Delivery risk	This risk stems from the challenge of implementing a number of substantial reforms to similar time frames. For example, the roll-out of the Trailblazer standards is already taking longer than originally expected. This creates risks to the credibility of the programme, and may lead to loss of support from employers.

Source: National Audit Office

4.8 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 a dependencies ‘roadmap’, including the identification of a critical path, which the Programme Management Office will maintain. Changes to activities that affect other initiatives will require appropriate approval, after an impact assessment of the change has been completed.

4.9 Delivery teams have been commissioned to prepare contingency plans, but only if elements of the programme should not progress as expected. DfE believes that, in general, initiatives are progressing sufficiently well that no contingency plans will need to be drawn up before October 2016. However, DfE also recognises that the contingency planning for funding reform, including the introduction of the levy, needs to continue to be developed, given that it is a particularly high-risk element of the programme.

Managing behavioural risks

4.10 Past experience of market-led reform in the education and skills sector suggests that significant behavioural risks can materialise when changes are made in the market at a fast pace. **Figure 14** explains the problems arising from two specific initiatives on which we have previously reported.

Figure 14

Problems arising from past market-led initiatives in the education and skills sector

Initiative	Background	Problems arising
Individual Learning Accounts ¹	'Virtual accounts' were set up to allow people to access learning opportunities at discounted rates. Learning providers were free to market their services to prospective customers, and the scheme encouraged many new providers to enter the market.	<p>The pace of implementation meant that no contingency plans were drawn up, and all risks became classified as high priority.</p> <p>Providers were not fully accredited or quality assured.</p> <p>Some providers offered low-value, poor-quality learning.</p> <p>Insufficient action was taken to minimise the risk of fraud and collusion by stakeholders.</p>
Alternative higher education providers ²	The former Department for Business, Innovation & Skills allowed greater access to student loan funding for alternative higher education providers (private companies and charitable bodies), and sought to influence an expansion in this part of the sector. The measures and intended expansion were designed to encourage diversity and competition in the higher education sector.	<p>Unexpected growth and high dropout rates raised questions about the capability and motivation of students and suggested opportunism by some providers.</p> <p>Some providers failed to register students for qualifications, or claimed funding for students enrolled on courses that had not been approved for public funding.</p> <p>Some providers failed to provide accurate information about student attendance.</p>

Notes

- 1 Comptroller and Auditor General, *Individual Learning Accounts*, Session 2001-02, HC 1235, National Audit Office, October 2002.
- 2 Comptroller and Auditor General, *Investigation into financial support for students at alternative higher education providers*, Session 2014-15, HC 861, National Audit Office, December 2014.

Source: National Audit Office

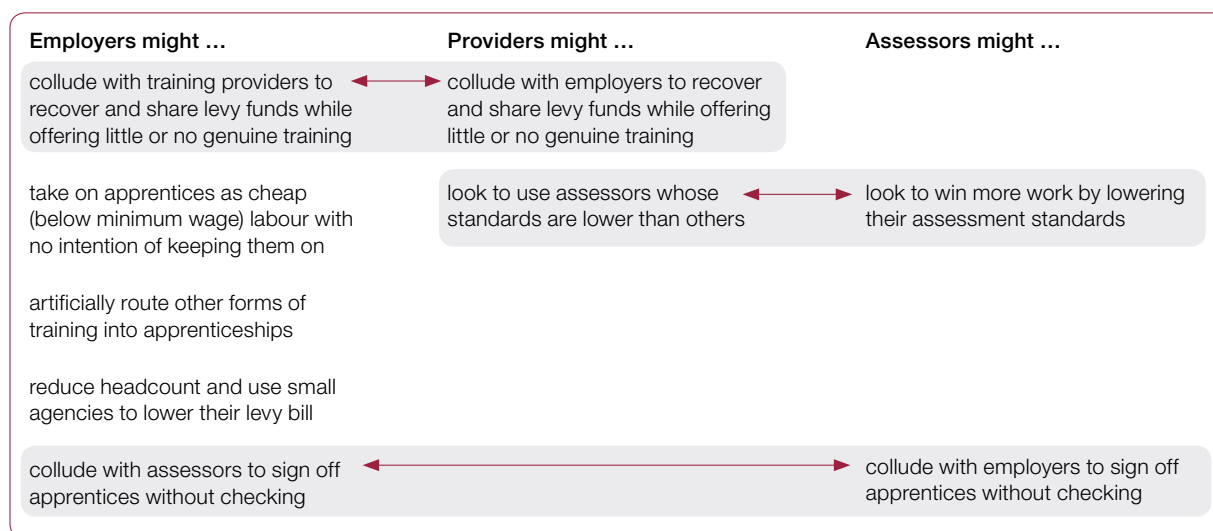
4.11 So far, work on stakeholders has largely focused on how their behaviours might affect the planned increase in apprenticeship numbers, rather than how they might affect the quality or reputation of the programme. For example, the Apprenticeships Directorate commissioned specific behavioural research into how employers might respond to the introduction of the apprenticeship levy, but the research only covers the risk of poor apprenticeship take-up.

4.12 In March 2016, the Apprenticeship Funding Policy Board's strategic risk register recognised the potential for funding reforms to provide opportunities for fraud and gaming of the system. This is a risk that its predecessor boards had not specifically recognised, but the mitigating actions still lacked detail and were largely built on the principle of strict accreditation rules. In June 2016, after we concluded our fieldwork, DfE and the Skills Funding Agency (SFA) also established a counter-fraud and gaming scrutiny group. This group brings together representatives from across government and the commercial sector to consider the risks of fraud and gaming that may arise from the apprenticeship reforms, though it is too early to say what impact the group will have.

4.13 However, DfE and the SFA are yet to establish what information they will need to monitor key behavioural risks and spot signals that these risks may be maturing. While they might reasonably expect the vast majority of employers, training providers and assessment bodies to act properly in response to apprenticeship reforms, a small minority may behave in unintended ways. Examples are shown in **Figure 15**.

Figure 15

Examples of behavioural risks relating to the reformed apprenticeship system



Appendix One

Our audit approach

1 The Department for Education (DfE) is currently in the early stages of a complex transition programme with regard to apprenticeships.¹⁸ Our study 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. We reviewed:

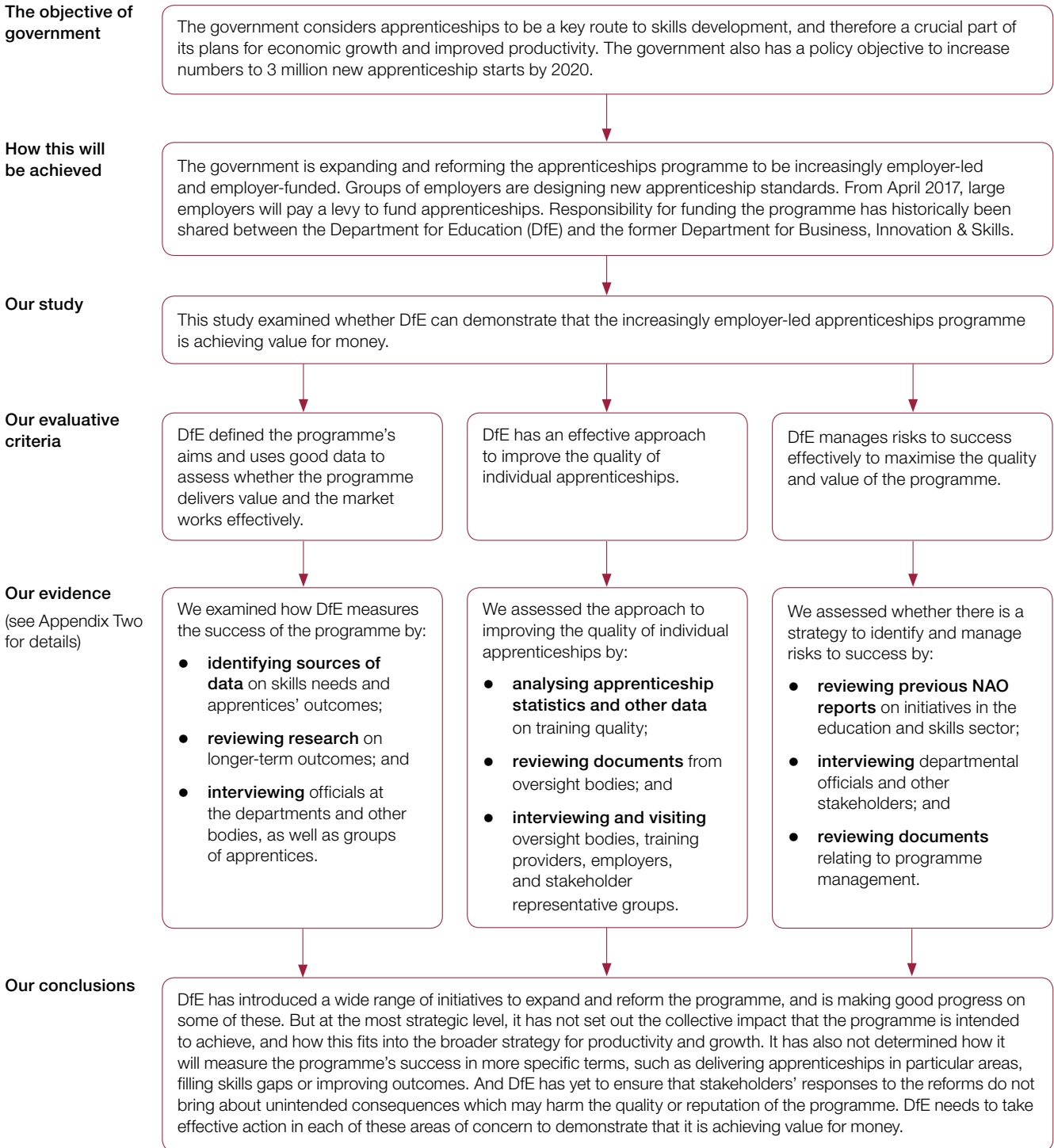
- how DfE defines the programme's aims and measures success;
- whether DfE has been effective in improving the quality of individual apprenticeships while reforming the programme; and
- whether DfE has a strategy to manage risks to apprenticeship quality and value effectively.

2 We applied an analytical framework with evaluative criteria to consider what arrangements would be optimal to increase the value achieved from expanding and reforming the apprenticeships programme. By 'optimal' we mean the most desirable possible, while acknowledging expressed or implied restrictions or constraints. A restriction in this context is the tight time frame within which DfE is committed to expanding and reforming the programme.

3 Our audit approach is summarised in **Figure 16** overleaf. Our evidence base is described in Appendix Two.

¹⁸ 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).

Figure 16
Our audit approach



Appendix Two

Our evidence base

1 We reached our independent conclusions on whether the apprenticeships programme delivers value for money after analysing evidence collected between December 2015 and May 2016.

2 We applied an analytical framework with evaluative criteria, which consider what arrangements would be optimal to increase the value achieved from expanding and reforming the programme. Our audit approach is outlined in Appendix One.

3 We interviewed oversight bodies, training providers, employers, local government bodies and other organisations, as follows:

- We carried out semi-structured interviews with the following oversight bodies:
 - Infrastructure and Projects Authority (IPA);
 - The Office of Qualifications and Examinations Regulation (Ofqual);
 - Ofsted;
 - Skills Funding Agency (SFA); and
 - UK Commission for Employment and Skills (UKCES).
- We visited seven training providers and conducted semi-structured interviews with their senior leadership team members. We selected a diverse group of providers – by region, size and type. The group was not representative of the entire population, but we selected it to cover our main areas of interest. The training providers were:
 - Burton and South Derbyshire College
 - Manpower UK;
 - NITAL;
 - South Staffordshire College
 - The College of Haringey, Enfield and North East London;
 - Training 2000 Limited; and
 - West Anglia Training Association.

- We conducted semi-structured interviews with employers and representative bodies of three sectors: construction, automotive and professional and digital services. We selected these sectors because (a) they are priority growth areas, (b) there is evidence of skills needs in these sectors and (c) there is evidence that apprenticeships have contributed or can contribute to fill these skills needs.¹⁹ The employers and representative bodies we interviewed were:

Construction:

- Balfour Beatty plc;
- Build UK;
- Civil Engineering Contractors Association;
- Construction Industry Training Board;
- Federation of Master Builders;
- Laing O'Rourke;
- Royal Academy of Engineering; and
- S.E.Connell & Sons Ltd.

Automotive:

- BMW UK;
- Jaguar Land Rover Limited;
- Society of Motor Manufacturers & Traders Ltd; and
- Toyota (GB) plc.

Professional and digital services:

- Association of Chartered Certified Accountants;
- Barclays Bank plc;
- Capgemini UK plc;
- Deloitte LLP;
- The Law Society of England and Wales;
- Management Consultancies Association; and
- PwC UK.

¹⁹ Priority growth areas as defined in the 2010 to 2015 government industrial strategy, updated on 8 May 2015, and available at: www.gov.uk/government/publications/2010-to-2015-government-policy-industrial-strategy/2010-to-2015-government-policy-industrial-strategy

- We spoke with two local enterprise partnerships (LEPs):
 - Black Country LEP; and
 - Northamptonshire Enterprise Partnership.
- We spoke with stakeholder representative groups:
 - Association of Colleges;
 - Association of Employment and Learning Providers;
 - British Chambers of Commerce;
 - Confederation of British Industry;
 - Energy & Utility Skills Limited;
 - Federation for Industry Sector Skills & Standards;
 - Federation of Small Businesses;
 - Group Training Associations (England);
 - National Institute of Adult Continuing Education (now the Learning and Work Institute); and
 - Trades Union Congress.

4 To examine how the success of the apprenticeships programme is measured:

- We **identified the sources of data** and information on levels, sectors and places where apprenticeships are taking place, skills needs and apprentices' outcomes. This allowed us to understand whether DfE has access to the sort of data it needs to measure the success of the programme.
- We **reviewed research** on apprentices' destinations and earnings outcomes, the return on investment offered by the programme and skills trends. This allowed us to determine whether apprenticeships are taking place at the levels and in the sector subject areas where they have the most impact. It also allowed us to understand the extent to which DfE is using these data to drive changes to the programme.
- We **spoke with groups of apprentices** in the automotive and professional and digital services sectors. This helped us to understand their experience as apprentices, their career perspectives, and how the apprenticeship route was presented to them in the first place.
- We **interviewed departmental and other officials** to understand how they measure and track the 'success' of the programme. This allowed us to assess whether there are appropriate indicators in place to measure the progress of the programme towards its productivity objectives and other aims.

5 To assess the approach to improving the quality of individual apprenticeships:

- We **analysed apprenticeship statistics and other data on training quality**, including achievement rates from the SFA, user satisfaction data from the former Department for Business, Innovation & Skills, inspection ratings from Ofsted, and data on quality requirements, such as length and content of apprenticeships. This allowed us to understand the quality of apprenticeship training being delivered.
- We **reviewed documents and data** from the oversight bodies, including data on the employer-designed apprenticeship standards and information on the monitoring and oversight arrangements. This allowed us to assess the extent to which sufficient oversight arrangements are in place to ensure good quality of apprenticeship training, considering that the programme is being both expanded and reformed.
- We carried out **semi-structured interviews with staff in the oversight bodies including the Department for Education (DfE)**, the former Department for Business, Innovation & Skills, SFA, Ofsted and Ofqual. The interviews covered the roles and responsibilities of the different oversight bodies, the quality of individual apprenticeships and the challenges of ensuring quality while expanding and reforming the programme.
- We conducted **semi-structured interviews with senior leadership team members in a sample of training providers**. The interviews helped us to understand their views on how training quality has been monitored and how training providers are adjusting to the expansion and reform of the programme.
- We **visited and interviewed a sample of employers in the construction, automotive and professional and digital services sectors**. Job titles and roles varied across employers, but most included senior leadership team members responsible for apprenticeships and traineeships. The interviews discussed the employer-designed apprenticeship standards process, employers' experience with taking up apprentices to meet skills needs, and the likely implications of the programme's reforms for skills development.
- We conducted a **focus group with small businesses**, assisted by the Federation of Small Businesses. This helped us to understand the reasons why small businesses engage (or fail to engage) with apprenticeships, their views on the employer-designed standards and the extent to which the programme meets the needs of small businesses. We also spoke with two LEPs to gather their views on the extent to which the apprenticeships programme meets the needs of local businesses and prospective apprentices.
- We spoke with **stakeholder representative groups**. This allowed us to gather a range of views about the quality of apprenticeship training being delivered and the likely effect of the ongoing reforms on the quality of individual apprenticeships.

6 To assess whether there is a strategy to identify and manage risks to success:

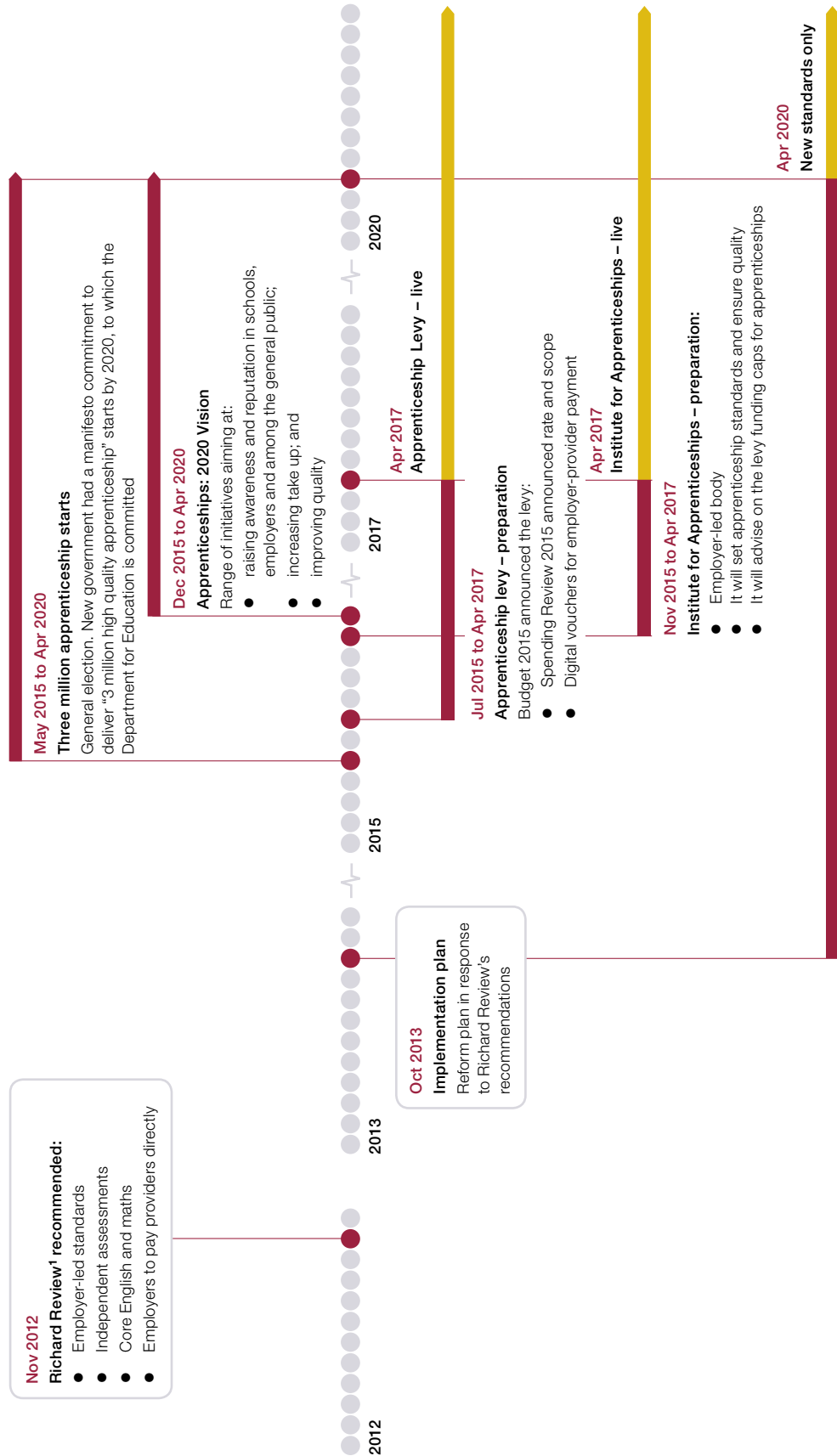
- We **reviewed our previous reports** on initiatives in the education and skills sector to learn from past experience what sort of risks can emerge and how best to spot and manage such risks proactively. These reports included our previous studies on Individual Learning Accounts and alternative higher education providers.
- We carried out **semi-structured interviews with officials and staff in the funding and oversight bodies**. These interviews helped us to understand the current decision-making process, the roles and responsibilities of each oversight body and the extent to which such roles and responsibilities will be affected by ongoing reforms.
- We **reviewed documents from the funding and oversight bodies** that set out their strategy to identify individual risks, define mitigating strategies and assign roles and responsibilities for the development of the programme. The documents we reviewed included delivery plans, work plans, risk registers and timelines.

Appendix Three

Apprenticeships reform timeline

Figure 17
Apprenticeships reform timeline

The Department for Education is reforming the programme to be increasingly employer-led and employer-funded



Oct 2013 to Apr 2020

'Trailblazer' standards started (coexistence of pre-existing 'frameworks' and new standards)

A new employer-designed standard and assessment process will be introduced for each type of apprenticeship

Note

1 An independent review of the future of apprenticeships conducted by Doug Richard.

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National Audit Office

Design and Production by NAO External Relations
DP Ref: 11203-001

£10.00

ISBN 978-1-78604-072-5



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