



National Audit Office

Report

by the Comptroller
and Auditor General

Department for Education

The apprenticeships programme

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National Audit Office

Department for Education

The apprenticeships programme

Report by the Comptroller and Auditor General

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Sir Amyas Morse KCB
Comptroller and Auditor General
National Audit Office

27 February 2019

This report assesses whether the apprenticeships programme is providing value for money. It examines progress since we last reported on apprenticeships in September 2016 when the Department for Education was in the early stages of expanding and reforming the programme.

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Key facts

£1.6bn

public spending on the apprenticeships programme in 2017-18

26%

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

44%

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

£2.0 billion

apprenticeship levy payments collected from UK employers in 2017-18 and allocated to England

9%

proportion of available funds that levy-paying employers used to pay for new apprenticeships in 2017-18, compared with the Department for Education's projection of 13%

375,800

apprenticeship starts in 2017/18

32%

proportion of people who reached the end of their apprenticeship in 2016/17 but did not achieve the apprenticeship

58%

proportion of the established training providers inspected in 2017/18 that Ofsted rated as good or outstanding for their apprenticeship training

27%

proportion of training providers whose low apprenticeship achievement rates met the criteria for intervention by the Education and Skills Funding Agency in 2016/17

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

Summary

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

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

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

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

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

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

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

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

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

Focus of this report

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

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

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

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

Key findings

Spending and budgeting

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

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

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

Number and type of apprenticeships

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

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

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

17 Progress in introducing the new standards has been slow, meaning that many apprenticeships continue to start under the older frameworks.

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

18 The introduction of standards has increased the number of higher-level apprenticeship starts.

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

Oversight of apprenticeships

19 The Department has improved its performance measures but is still not transparent in how it demonstrates the overall added value of the programme.

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

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

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

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

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

Conclusion on value for money

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

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

Recommendations

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

- a** The Department should set out clearly how it measures the impact of the programme on productivity, and indicate the level of impact that it is aiming to achieve.
- b** The Department should strengthen the programme's performance measures relating to participation among under-represented groups.
- c** The Department and the ESFA should assess whether they would secure better value for money by prioritising certain types of apprenticeship, rather than delivering a programme for apprentices at all levels, in all sectors.
- d** The ESFA should better mitigate the key risk that apprentices may not spend 20% of their time on off-the-job training.
- e** The Institute should improve assessment arrangements to ensure that assessment is conducted in a fair, consistent and robust manner across different apprenticeship standards and between different assessment organisations.
- f** The Department and HM Treasury should determine how spending should be treated, and how budgets should be set, in order to secure the future financial viability of the programme. This should include giving due consideration to whether spending on the programme should be treated as annually managed expenditure.

Part One

The apprenticeships programme

1.1 This part of the report sets out information about the apprenticeships programme, including details of recent reforms.

Definitions and aims

1.2 Successive governments have considered apprenticeships to be a key way of developing skills. The current programme can be traced back to 2012, when the Richard Review recommended how apprenticeships should meet the needs of the changing economy.² The programme is intended to help address the fact that the UK's productivity is poor compared with many international competitors, and that employers' investment in training has fallen significantly in the last 20 years.

1.3 The apprenticeships programme aims to enable individuals in England to develop the knowledge, skills and behaviours required for their occupation, through on- and off-the-job training. The objectives of the programme are to:

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

1.4 An apprenticeship is a job that combines work with training. An apprentice must spend at least 20% of their paid hours doing off-the-job training and the apprenticeship must last for at least 12 months. The content of each apprenticeship is set out in either a 'framework' or a 'standard'. Frameworks are older and are gradually being phased out in favour of standards.

1.5 The apprentice's wage is determined and paid by their employer. The minimum wage for apprentices is lower than the National Minimum Wage if the apprentice is aged 16 to 18 or in the first year of their apprenticeship.

² Doug Richard, *The Richard Review of Apprenticeships*, November 2012.

1.6 The apprentice receives off-the-job training from an authorised provider. Government contributes to the cost of this training. The training provider could be:

- a further education college or higher education institution;
- an independent training provider;
- a community learning and skills provider (local authority or not-for-profit); or
- an employer-provider (only permitted to provide training to its own staff or staff employed by a connected company or charity).

1.7 Apprentices can be new or existing employees. Employers across a wide range of industries and professions in all sectors of the economy offer apprenticeships. Apprenticeships are open to people over the age of 16, and are available at a range of levels, from GCSE-equivalent to master's degree-equivalent (**Figure 1**).

Accountabilities

1.8 The Department for Education (the Department) is accountable for the apprenticeships programme, including securing value for money for the public spending on the programme. In September 2018, the Department passed responsibility for apprenticeships policy to the Education and Skills Funding Agency (the ESFA), one of its executive agencies. This added to the ESFA's existing responsibilities for funding and overseeing the delivery of apprenticeships.

1.9 The Department relies on market mechanisms to address skills gaps in the economy, and does not decide where, or at what level, apprenticeships take place. It has a target to facilitate 3 million apprenticeship starts between May 2015 and March 2020. Under the Welfare Reform and Work Act 2016, the Department must report annually on progress towards the target.

Figure 1
Apprenticeship levels

Name	Level of qualification	Educational equivalent
Intermediate	2	GCSEs
Advanced	3	A levels
Higher	4, 5, 6 and 7	Diplomas, certificates and degrees
of which, degree level	6 and 7	Bachelor's and master's degrees

Source: National Audit Office

Recent reforms

1.10 Since we reported on the programme in 2016,³ the Department has made significant changes to support delivery of apprenticeships. The government considers that, by making the programme more employer-led and employer-funded, it will better meet the skills needs of the economy.

Institute for Apprenticeships & Technical Education

1.11 In April 2017, a new executive non-departmental public body, the Institute for Apprenticeships (now the Institute for Apprenticeships & Technical Education) (the Institute), was established. The Institute's role is to ensure the quality, consistency and credibility of apprenticeships. Employers who identify an industry need can form a 'trailblazer group' and develop an apprenticeship with the support of the Institute, which ultimately approves each standard and the associated assessment plan.

Apprenticeship levy

1.12 The government has made major changes to how the apprenticeships programme is funded. Since April 2017, employers have been required to pay an apprenticeship levy, set at 0.5% of their annual pay bill. An allowance of £15,000 means only those with a pay bill of more than £3 million currently contribute.

1.13 HM Revenue & Customs (HMRC) collects levy funds directly from qualifying employers on behalf of HM Treasury. Employers in England who pay the levy have access to their contributions, plus a 10% government top-up, to spend on apprenticeship training and assessment. If an employer exhausts its levy funds, it moves to the co-investment process.

1.14 Under the co-investment process, employers with pay bills of less than £3 million (non-levy payers) and levy payers that have used all their levy funds share the cost of training and assessment with government. They cover 10% of the cost and government pays the remaining 90% direct to the training provider.⁴ Previously, payment arrangements across all employers were more complex, although employers incurred no cost for some apprenticeships.

Online apprenticeship service

1.15 In spring 2017, the ESFA successfully introduced an online service, allowing levy-paying employers to access their funds, manage their apprenticeships and authorise payments to their training providers. By November 2018, around 16,000 online accounts had been registered. It is not clear what proportion of levy-paying employers this represents because HMRC collects data on a 'Pay As You Earn' (PAYE) basis, and employers may have multiple PAYE schemes.

³ Comptroller and Auditor General, *Delivering value through the apprenticeships programme*, Session 2016-17, HC 624, National Audit Office, September 2016.

⁴ The government has announced that the co-investment level will fall to 5% but has not set a date for this change.

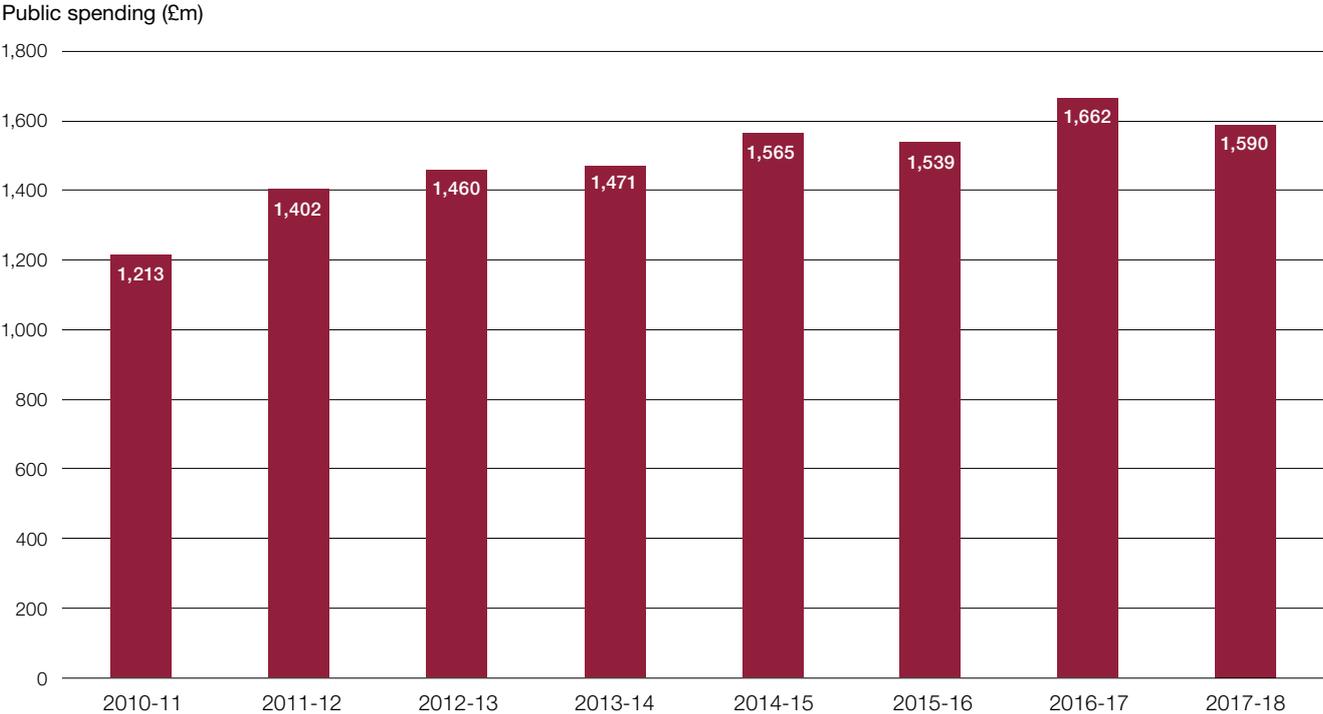
1.16 The ESFA launched the online service to coincide with the introduction of the levy, delivering it on time despite the considerable challenges involved. The service won an award for being the ‘Digital public service innovation of the year’ in 2018. The ESFA took the sensible decision to develop a basic service, with additional functionality following on. It also built in controls to help mitigate the risk of accidental or deliberate failure to follow funding rules. The ESFA plans to allow non-levy-paying employers to use the online service in the future, but has not set a date for this change.

Spending and budgeting

1.17 Public spending on the apprenticeships programme increased from £1.2 billion in 2010-11 to £1.6 billion in 2017-18 (**Figure 2**). This represented an increase of 31% in cash terms, and 17% in real terms.

Figure 2
Public spending on apprenticeships, 2010-11 to 2017-18

Overall public spending on apprenticeships has risen since 2010-11



Notes

- 1 From 2017-18, the programme has been funded through the apprenticeship levy and associated arrangements (see paragraphs 1.12 to 1.14).
- 2 Spending is shown in cash terms.

Source: National Audit Office analysis of data from the Department for Education

1.18 Before the apprenticeship levy, the Department allocated fixed amounts to individual training providers, which sought employers to supply apprentices to fill the available training spaces. This capped the total amount that could be spent on apprenticeships. Under the new arrangements, spending is demand-led and could be higher than predicted due to:

- levy-paying employers using apprenticeships more than forecast;
- unexpected demand for higher-cost apprenticeships; and
- the behaviour of non-levy-paying employers when they move across to the online apprenticeship service.

1.19 HM Treasury has allocated the Department a fixed annual budget for the programme, which forms part of the 'departmental expenditure limit'. Programmes that are demand-led, and where spending is therefore more difficult to control, are more usually treated as 'annually managed expenditure'. The budget was set in 2015, before the final funding policy was decided, and extends to 2019-20; funding for future years will be determined as part of the 2019 Spending Review. The budget broadly matches levy receipts forecast in November 2015 (less an amount given to the devolved administrations) and does not change if the levy raises more or less than expected. Overall, the Department can carry forward limited underspends into future years, in line with HM Treasury guidance.

1.20 The budget is not sufficient for all levy-paying employers to draw down their funds in full. Each employer has access to the amount it paid into the apprenticeship levy, plus the 10% government top-up. Under current funding arrangements, the Department and HM Treasury had expected levy-paying employers to access up to around half of the funds in their levy accounts to cover both new starts and existing apprenticeships. In 2017-18, levy-paying employers accessed £191 million (9%) of almost £2.2 billion of levy funds and government top-up available to them, compared with the Department's forecast of £272 million (13%). Employers have up to 24 months to spend levy funds before they expire.

1.21 As shown in **Figure 3**, the budget is used not only to fund new apprenticeships for levy-paying employers, but must also cover:

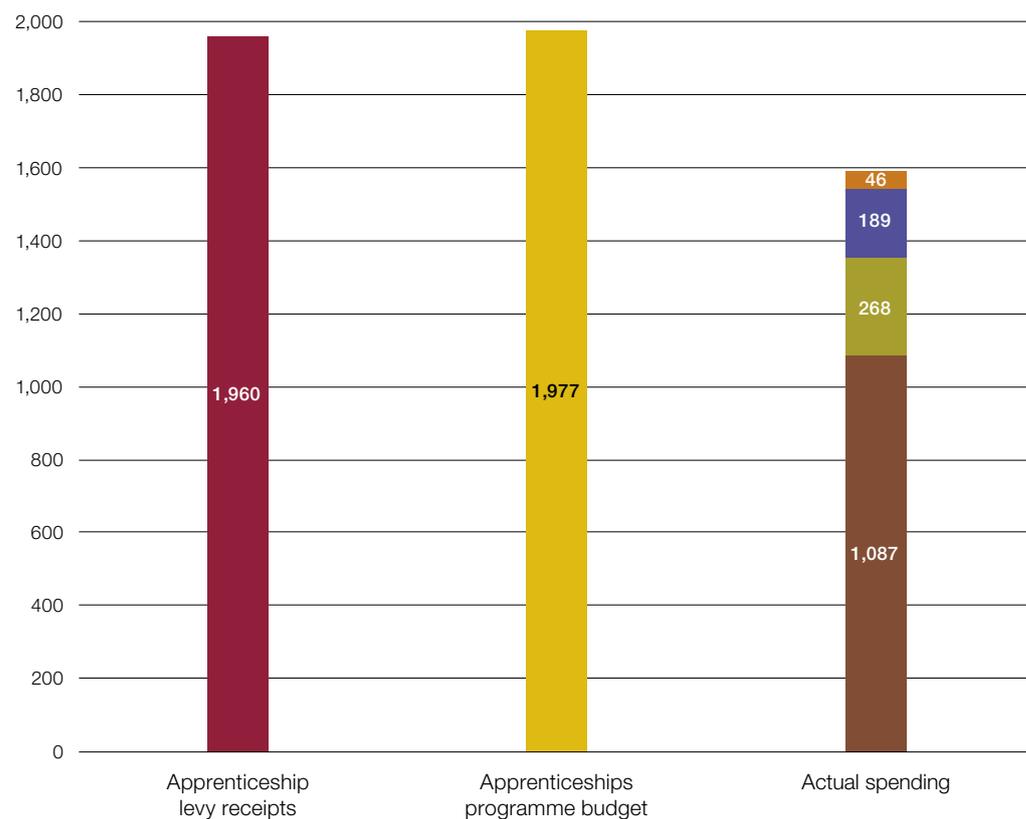
- government's contribution to apprenticeships for non-levy-paying employers (£189 million spent in 2017-18);
- government's contribution to apprenticeships that were started before the funding changes (£1,087 million spent in 2017-18); and
- 'non-participation' spending, to run the online apprenticeship service and support central initiatives such as communications projects (£46 million spent in 2017-18).

Figure 3

Programme funding and spending, 2017-18

The budget for the programme supports new apprenticeships at levy-paying employers and also covers other costs

Apprenticeship funding for 2017-18 (£m)



- Apprenticeship levy receipts
- Apprenticeships programme budget
- Actual spending – non-participation spending
- Actual spending – new starts at non-levy-paying employers
- Actual spending – new starts at levy-paying employers
- Actual spending – apprenticeships started before the funding changes

Notes

- 1 In 2017-18, £2.27 billion was collected through the levy across the whole of the UK. This was allocated to England, Scotland, Wales and Northern Ireland in line with their population share. The £1.96 billion levy receipts shown in the chart represents the allocation to England in respect of levy-paying employers that have set up accounts with the online apprenticeship service.
- 2 The amount spent on new apprenticeships at levy-paying employers in 2017-18 includes the £191 million that these employers drew down from their accounts, plus £66.3 million of additional payments covering things such as incentives for employing younger apprentices and funding for learning support activities, and £10.2 million of payments for co-invested learning.

Source: Department for Education

1.22 When the Department set its funding policy in 2016, its spending forecasts included £100 million to £150 million within each year's budget to provide some flexibility if parts of the programme spent more than planned. However, this flexibility was not designed to cover fully the high level of uncertainty within the programme. Since fewer learners have started apprenticeships than expected, the Department underspent by £400 million against its 2017-18 budget (£1.6 billion against a budget of £2.0 billion). At the time of our work, it expected that it would underspend by £500 million against its 2018-19 budget (£1.7 billion against a budget of £2.2 billion).

1.23 The Department produced its most recent forecasts in late 2018. It expects spending to be on budget in 2019-20, at just under £2.6 billion. Its forecasts show that there could be a £230 million underspend in a 'low-spending scenario', or a £72 million overspend in a 'high-spending scenario'.

1.24 The Department has calculated that the average cost of completing an apprenticeship on a new standard was around £9,000 at the end of 2017-18, approximately double the cost allowed for when the programme's budgets were set in 2015. Employers are developing and choosing a greater proportion of higher-cost apprenticeships than the Department expected. The Department projects that, even if starts remain at current levels, spending on the programme could rise to more than £3 billion once frameworks are withdrawn and all apprenticeships are on standards (see paragraph 2.26).

1.25 The Department recognises that there are ways in which it could seek to control spending if necessary. However, these are likely to be unpopular and could damage confidence in the programme. Options could include: capping the spending of levy-paying employers; limiting the number of apprenticeships available for non-levy-paying employers; and lowering the funding bands, meaning that less funding is available per apprenticeship. Alternatively, the Department could cover overspends on apprenticeships using funds from elsewhere in its budget, or seek a higher level of funding for the next spending review period.

Part Two

Number and type of apprenticeships

2.1 This part of the report covers the number and type of apprenticeships being carried out, including progress in moving apprenticeships from frameworks to standards.

Apprenticeship starts

Numbers of apprenticeships

2.2 The number of people starting apprenticeships has fallen substantially since the levy was introduced in April 2017. There were 375,800 starts in 2017/18 (the first full academic year post-levy), compared with 509,400 in 2015/16 (the last full academic year pre-levy) – a drop of 26%.⁵

2.3 The fall in starts means that the government is unlikely to achieve its target of 3 million apprenticeship starts by March 2020. The Department for Education (the Department) expected to meet the target through a broad year-on-year increase in starts, with 546,000 starts projected for 2019/20; it did not project a drop in annual numbers after introducing the levy. To meet the target by March 2020, the rate of starts would need to double for the remainder of the period.

2.4 The introduction of the levy changed the pattern of apprenticeship starts in 2016/17. Before then, there was a regular pattern – a peak of around 80,000 starts each September, falling to around 25,000 each December, and an average of 40,000 starts in other months (**Figure 4** overleaf). Apprenticeship starts did not follow this pattern around the time that the levy was introduced, with:

- a spike of nearly 80,000 starts in April 2017, when employers and training providers could still use the pre-levy arrangements; and
- a fall to fewer than 15,000 starts in May and June 2017, when employers and training providers had to use the new system.

⁵ Due to the distortion in the pattern of apprenticeship starts in the period around the introduction of the levy, we drew comparisons between 2015/16 and 2017/18 (that is, excluding 2016/17) where appropriate.

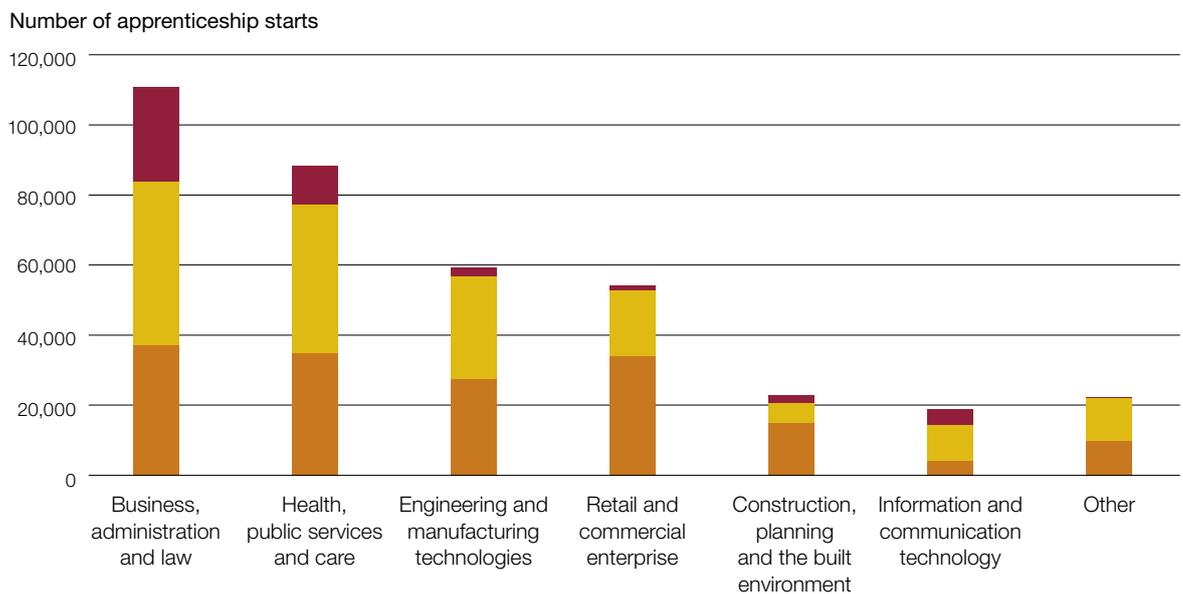
2.5 Stakeholders suggested to us that the change in the pattern of apprenticeship starts may have been because employers and training providers were uncertain about how the new system would work. This may have led them to enrol more new apprentices than normal under the old system, and then hold back in the months after the new arrangements came into force. It may also be an indication of a move away from apprenticeships that do not meet quality requirements such as apprentices spending at least 20% of their time doing off-the-job training.

Apprenticeships in different sectors

2.6 In 2017/18, the most popular sector was 'business, administration and law', which accounted for almost 30% of apprenticeship starts, followed by 'health, public services and care' with 24%. 'Business, administration and law' accounted for 56% of all starts at level 4 and above (**Figure 5**).

Figure 5
Apprenticeship starts by sector, 2017/18

The top four sectors accounted for 83% of all apprenticeship starts



	Sector						
Level 4+	27,100	11,000	2,100	1,500	2,100	4,200	200
Level 3	47,000	42,600	29,500	18,500	5,700	10,600	12,100
Level 2	36,900	34,700	27,300	34,100	14,800	3,800	9,800
All starts	111,100	88,300	58,900	54,200	22,700	18,500	22,100
Proportion of all starts (%)	29.6	23.5	15.7	14.4	6.0	4.9	5.9

Notes

- 1 'Other' includes leisure, travel and tourism (8,800 total starts); agriculture, horticulture and animal care (6,600); education and training (5,600); arts, media and publishing (1,000); and science and mathematics (200).
- 2 Figures have been rounded to the nearest 100, and totals may not sum due to rounding.

Public sector target

2.7 In March 2017, new legislation introduced a public sector target for apprenticeships.⁶ Public bodies with 250 or more staff in England must have regard to a target for 2.3% of their workforce, whether new recruits or existing staff, to start an apprenticeship each year. The target runs from April 2017 to March 2021 and is assessed as an annual average over this period. For 2017-18, public bodies reported that 1.4% of their workforce had started an apprenticeship. This figure was based on returns from 676 bodies and equated to 45,300 starts in total.

2.8 The use of apprenticeships varies widely across the public sector. For example, the armed forces reported that 9% of their workforce started an apprenticeship in 2017-18. Meanwhile, 54 organisations reported no starts during the year.

Participation in apprenticeships

Diversity targets

2.9 The Department is on track to meet two of the targets that underpin its aim to increase participation in the programme by groups that have previously been under-represented. **Figure 6** shows that:

- 11.2% of apprentices starting in 2017/18 were from black, Asian and minority ethnic (BAME) backgrounds, up from a baseline of 10.0% (the average between 2010 and 2015) and against the target of 11.9% by 2020; and
- 11.2% of apprentices starting in 2017/18 considered themselves to have a learning difficulty, disability or health problem, up from a baseline of 9.9% in 2015/16 and against the target of 11.9% by 2020.

2.10 However, the Department's diversity targets are not ambitious. The 11.9% target is lower than the working-age BAME population in England (14.9% in the 2011 census) and much lower than the proportion of BAME pupils at the end of key stage 4 (20.7% in the 2015/16 school year). Similarly, 19% of working-age adults in the UK reported having a disability in 2016-17, compared with the 11.9% target on learning difficulties, disabilities and health problems.⁷

2.11 The Department's targets also cover socio-economic disadvantage. It aims for at least 25% of apprentices to be from disadvantaged areas,⁸ which is the same proportion as in 2015/16. In 2017/18, only 22.6% of new apprentices were from disadvantaged areas. It also aims to increase the proportion of apprentices from disadvantaged areas on 'higher-value apprenticeships'. However, the definition of 'higher-value' is imprecise, and the Department has not reported progress against this target.

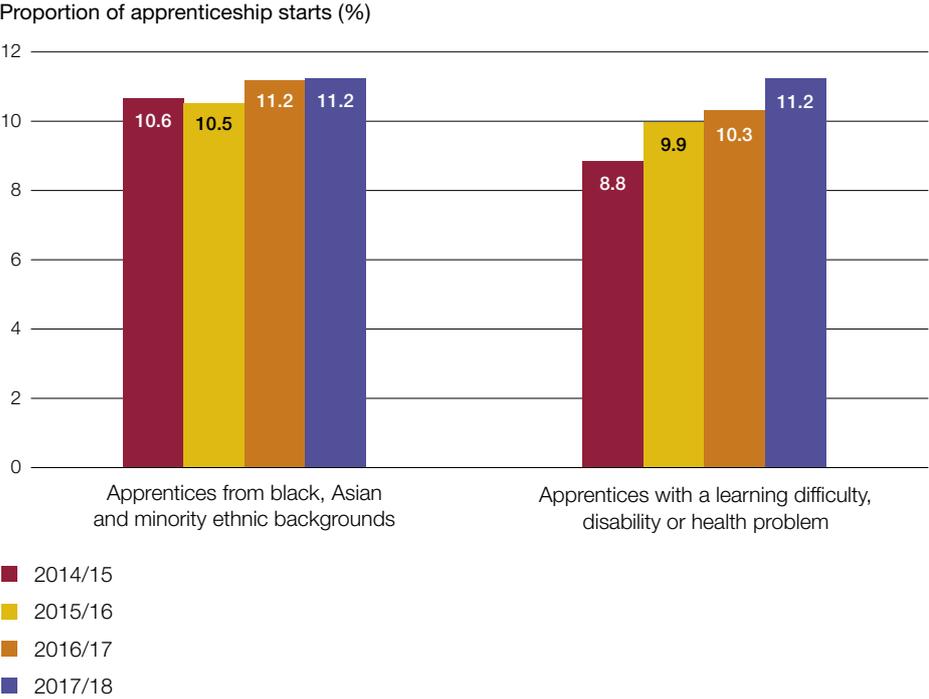
⁶ The Public Sector Apprenticeship Targets Regulations 2017.

⁷ Department for Work & Pensions, *Family Resources Survey: 2016-17*, March 2018.

⁸ The Department has defined this group as apprentices living in the most deprived 20% of local authorities in England using the Index of Multiple Deprivation.

Figure 6
Proportion of apprenticeship starts among under-represented groups, 2014/15 to 2017/18

The proportion of new apprentices from black, Asian and minority ethnic backgrounds has not increased as steadily as the proportion with a learning difficulty, disability or health problem



Source: National Audit Office analysis of data from the Education and Skills Funding Agency

2.12 The Department has no targets relating to gender equality. In June 2018, the Committee of Public Accounts recommended that the Department should monitor progress against specific targets relating to the involvement of girls and women in key science, technology, engineering and mathematics (STEM) learning programmes such as apprenticeships.⁹ The Department disagreed with this recommendation, stating that it already monitored gender participation at every stage of education, and that it did not believe that setting targets would help it tackle the issue.¹⁰

2.13 An almost even gender split across the apprenticeships programme as a whole disguises some wide differences at lower levels. Of apprentices starting in 2017/18, 51% were male and 49% were female. But traditional gender imbalances persist at sector and subject level. As we reported in 2018, women made up only around 8% of STEM apprenticeship starts in 2016/17.¹¹ There are substantial gender splits in sectors such as ‘engineering and manufacturing technologies’ (7.4% female, 92.6% male in 2017/18) and ‘health, public services and care’ (80.2% female, 19.8% male in 2017/18). There is also gender disparity in the progression of apprentices – earnings outcome data show that women typically earn lower salaries than men after completing apprenticeships at every level, and this gap grows each year after completion.

Age

2.14 In 2017/18, the number of apprenticeship starts fell for all age groups, but numbers held up best for the youngest group. Comparing 2017/18 with 2015/16, starts fell by:

- 19% among 16- to 18-year-olds (from 131,400 to 106,600);
- 26% among 19- to 24-year-olds (from 153,900 to 113,700); and
- 31% among those aged 25 or over (from 224,100 to 155,500).

The drop in the number of starts was particularly marked for level 2 apprentices aged 25 or over, with 55% fewer starts in 2017/18 compared with 2015/16.

2.15 This position is not what the Department expected. For the 2015 Spending Review, the Department assumed that apprenticeship starts among 16- to 18-year-olds would stay at around 128,000 a year, while the number of starts for older age groups would rise. The fall in the number of apprentices aged 16 to 18 is expected to shift costs from the apprenticeships programme to the Department’s wider 16-to-19 education budget.

9 Committee of Public Accounts, *Delivering STEM skills for the economy*, Forty-seventh Report of Session 2017–2019, HC 691, June 2018.

10 HM Government, *Treasury Minutes: Government response to the Committee of Public Accounts on the Forty-third to the Fifty-eighth Reports from Session 2017–2019*, Cm 9702, October 2018.

11 Comptroller and Auditor General, *Delivering STEM (science, technology, engineering and mathematics) skills for the economy*, Session 2017–2019, HC 716, National Audit Office, January 2018.

Geographical location

2.16 Introducing the levy does not appear to have led to a shift in the geographical spread of apprenticeships. In 2017/18, as in previous years, the North West (58,100) and the South East (52,600) had the most starts. Per working-age person, there were most starts in the North East (where 14 people started on an apprenticeship per 1,000 working-age population), and fewest in London (6 per 1,000) (**Figure 7** overleaf). The stable geographical pattern is noteworthy, as some observers were concerned that the levy might shift the focus of the programme towards London and the South East, where they expected there would be more levy-paying employers.

Apprenticeship standards

Development of standards

2.17 In 2013, government began to replace apprenticeship frameworks with standards, with the aim of improving quality. Before the introduction of standards, the off-the-job training element of apprenticeships consisted of a broad framework of supporting qualifications, and the apprentice was assessed continuously throughout the apprenticeship. A standard is a package of the key knowledge, skills and behaviours required to carry out a particular occupation, and the apprentice is assessed at the end of the apprenticeship.

2.18 Employers generally have a positive view of standards in principle. The Department's 2017 survey found that 62% of those who had some involvement with standards considered them to be an improvement on frameworks, compared with 15% who did not regard them as an improvement.¹² Many of the employers, training providers and representative bodies that we spoke to thought that it was beneficial for apprentices to work towards acquiring a set of knowledge, skills and behaviours determined by sector experts. As such, they considered that standards generally represented a higher-quality package of training than frameworks.

2.19 The process of developing standards has been slow, and there is still some way to go before it is complete. The process began in October 2013, under the former Department for Business, Innovation & Skills. The Department for Education assumed responsibility in summer 2016 and the Institute for Apprenticeships (now the Institute for Apprenticeships & Technical Education) (the Institute) took over in April 2017. In December 2018, just over five years since the start of the process, around 360 of a potential 600 standards had been approved for delivery.

¹² Department for Education, *Apprenticeships evaluation 2017: employers*, November 2017.

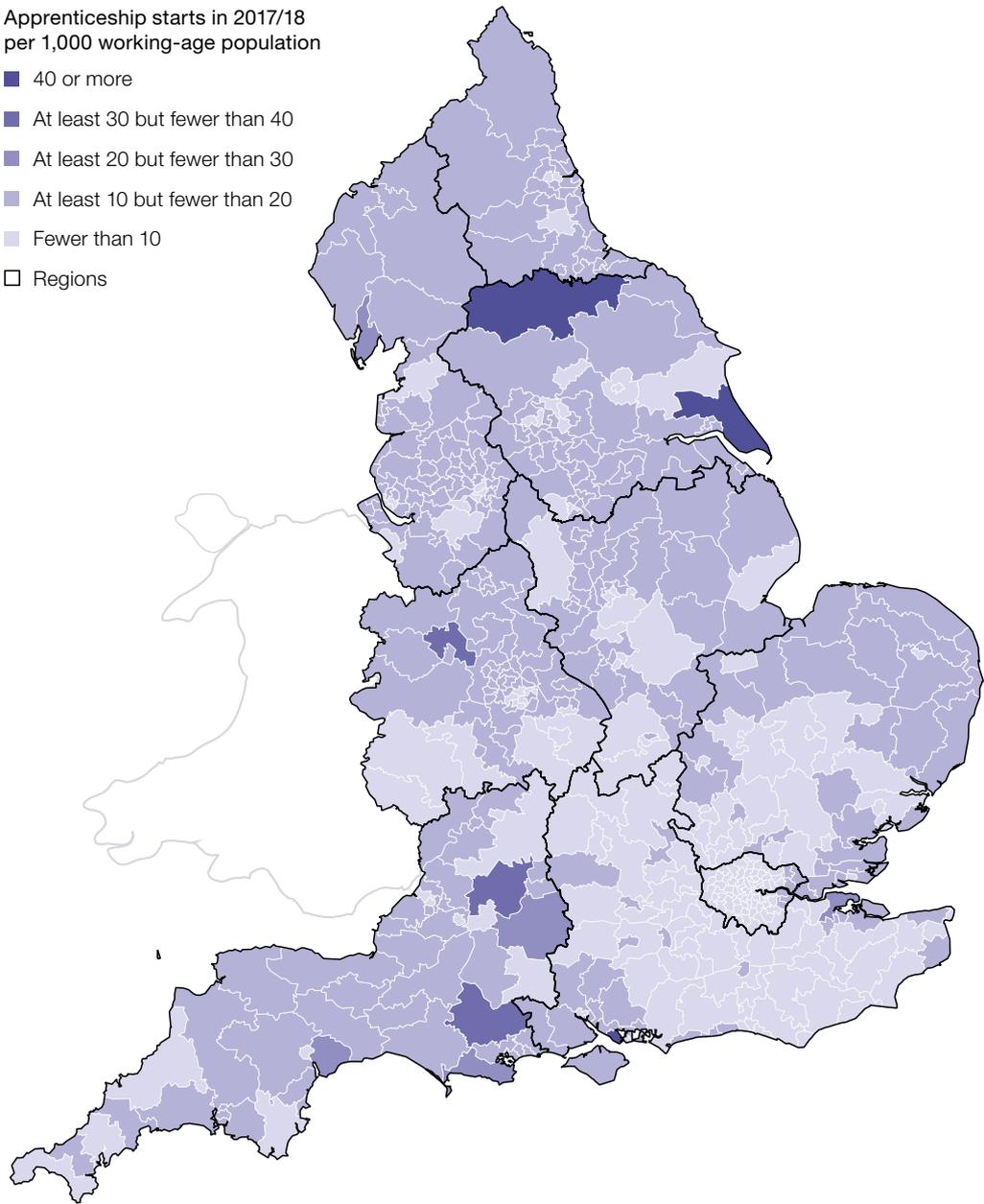
Figure 7

Apprenticeship starts by Parliamentary constituency, 2017/18

The lowest concentration of apprenticeship starts was in London and the South East

Apprenticeship starts in 2017/18
per 1,000 working-age population

- 40 or more
- At least 30 but fewer than 40
- At least 20 but fewer than 30
- At least 10 but fewer than 20
- Fewer than 10
- Regions



Notes

- 1 The relatively large number of starts in Richmond (Yorkshire), Beverley and Holderness, and Gosport is driven by large military bases within these constituencies.
- 2 Map based on 2017 Parliamentary constituencies.
- 3 Working-age population is defined as population aged 16 to 64 from the 2017 Office for National Statistics mid-year population estimates.

Source: National Audit Office analysis of data from the Department for Education

2.20 Our 2016 report noted that it was taking, on average, nearly a year to develop an approved standard.¹³ The Committee of Public Accounts subsequently recommended that the Department should streamline the process for devising, implementing and reviewing standards.¹⁴ In early 2018, the Institute began a project that aims, among other things, for 80% of standards to be approved within eight months. For standards that the Institute has overseen from the start, there has been a downward trend in development times. However, because of a backlog of standards that were already in development before the Institute was created, only 6% of those completed between January and October 2018 were approved within the target timeframe.

2.21 The Department and the Institute have not seen it as their role to prioritise the development of any particular standards. In 2017, the government said that it expected the Institute to prioritise the development of standards in sectors that were priorities for its Industrial Strategy.¹⁵ However, the Institute told us that it sees its role as a responsive one – to support the work of the employer groups, but not to influence the order in which the groups form or conduct their work. As a result, the standards introduced first were not necessarily for the apprenticeships that could add most value.

2.22 The Institute may have to commit resources to closing down standards that are not needed or viable. While the development of standards is employer-led, the Institute broadly expects that around 600 standards may be needed in the long term. At the time of our work, 655 standards were in place or in development, including 68 at proposal stage.

Take-up of standards

2.23 The proportion of apprenticeships starting on a standard, rather than a framework, has increased considerably. When the levy was introduced in April 2017, just 2% of starts were on a standard. Starts on standards overtook framework starts in April 2018 and had reached 53% of all starts by July 2018 (**Figure 8** overleaf). In total, during 2017/18, 44% of starts were on a standard.

2.24 However, large numbers of people continue to start apprenticeships on an old-style framework. In 2017/18:

- 212,000 starts were on a framework, out of 375,800 total starts (56% of the total); and
- eight of the 10 most popular apprenticeships were on a framework, representing more than 94,000 starts. These included: business administration levels 2 and 3; construction skills level 2; and children’s care level 3.

¹³ Comptroller and Auditor General, *Delivering value through the apprenticeships programme*, Session 2016-17, HC 624, National Audit Office, September 2016.

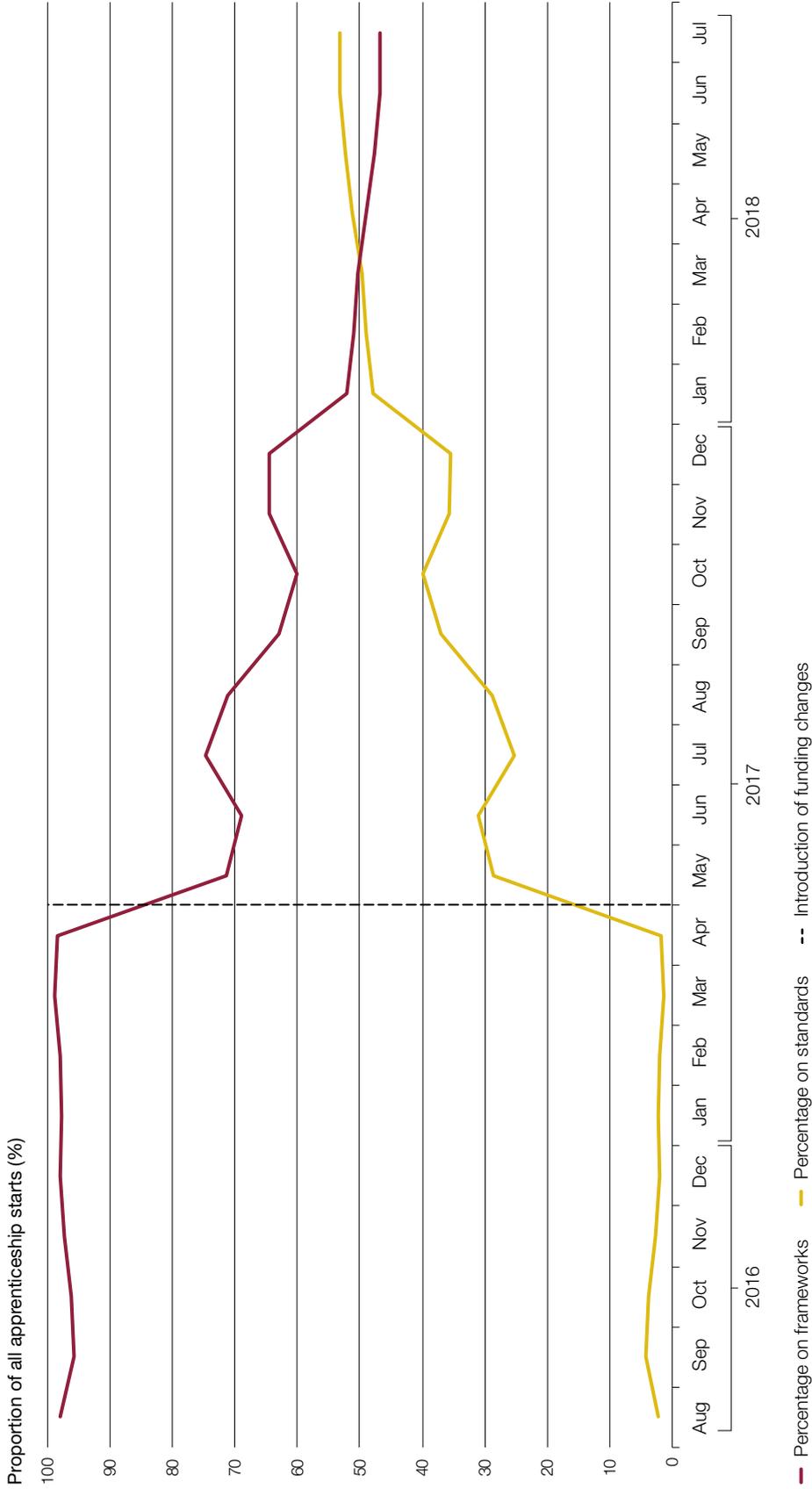
¹⁴ Committee of Public Accounts, *The apprenticeships programme*, Twenty-eighth Report of Session 2016-17, HC 709, November 2016.

¹⁵ HM Government, *Industrial Strategy: Building a Britain fit for the future*, Cm 9528, November 2017.

Figure 8

Apprenticeship starts on frameworks and standards, August 2016 to July 2018

The proportion of apprenticeship starts on standards increased from April 2017, and overtook starts on frameworks in April 2018



Notes

- 1 An apprenticeship framework consists of a package of qualifications that are assessed independently of one another.
- 2 An apprenticeship standard is designed by an employer group from the relevant sector and consists of two parts: an occupational standard, which sets out the knowledge, skills and behaviours that the apprentice will need to acquire; and an independent end-point assessment.
- 3 Frameworks are being phased out in favour of standards.

Source: National Audit Office analysis of data from the Education and Skills Funding Agency

2.25 There appears to be a lack of clarity over frameworks being withdrawn once the Institute has approved an equivalent standard. In 2017/18, several apprenticeships saw a considerable number of starts on a framework, even though a broadly equivalent standard was available. These included: hospitality and catering level 2 framework (3,200 starts); customer service level 2 framework (2,300 starts); and hairdressing level 2 framework (1,800 starts).

2.26 The Department aims for all standards to be in place by the start of the 2020/21 academic year. It has announced that it will no longer fund apprenticeship starts on frameworks after 31 July 2020. Therefore, all starts from 1 August 2020 will be on standards.

Higher-level apprenticeships

2.27 The introduction of standards has expanded the proportion of higher-level apprenticeships on offer. In December 2018, 45% of standards were at level 4 or above, compared with only 13% of frameworks when we reported on the apprenticeships programme in September 2016 (**Figure 9**). The Department considers that offering more apprenticeships at level 4 or above will encourage the types of apprenticeship that tend to provide more value, in terms of long-term wage return to the apprentice.

2.28 A small but growing proportion of the apprenticeships being undertaken are at higher levels. In 2017/18, 12.8% of starts were at level 4 or above, compared with 5.3% in 2015/16. This trend looks set to continue. While higher-level apprenticeships tend to absorb more public funding than those at lower levels, the Department sees this as part of an evolution towards higher-quality apprenticeships.

Figure 9

Availability of apprenticeship frameworks and standards by level

The standards approved or in development are weighted more towards higher-level apprenticeships compared with the frameworks available before the levy was introduced

	Level of apprenticeship		
	Level 2 (percentage of total)	Level 3 (percentage of total)	Level 4+ (percentage of total)
Frameworks (224 available in September 2016)	43	44	13
Standards (655 approved or in development in December 2018)	21	33	45

Notes

- 1 Rows may not sum to 100% due to rounding.
- 2 Standards approved or in development includes proposals in development.
- 3 When the National Audit Office reported on apprenticeships in September 2016, nearly all apprenticeships were being undertaken on frameworks rather than standards. At the time of this report, frameworks are being phased out in favour of standards.

Source: National Audit Office analysis of data from the Institute for Apprenticeships & Technical Education

The added value of the programme

2.29 The apprenticeships programme now encompasses a wider range of professions and types of training. For instance, new standards enable apprentices to become qualified accountants, actuaries, solicitors, teachers, nurses and paramedics. Such standards have been developed in response to employer demand, and support the Department's aim to deliver more higher-level apprenticeships.

2.30 However, these new types of apprenticeship raise questions about whether public money is being used to pay for training that already existed in other forms. Some levy-paying employers are replacing their professional development programmes – for example, graduate training schemes in accountancy or advanced courses in management – with apprenticeships. In such cases, there is a risk that the additional value of the apprenticeship to the economy may not be proportionate to the amount of government funding.

2.31 The Education and Skills Funding Agency recognises that some employers use apprenticeships as a substitute for training and development that they would offer without public funding. It argues, however, that the programme continues to have benefits in these circumstances, for example by encouraging employers to plan and develop their workforce better and by opening up professional training to a wider range of people.

Part Three

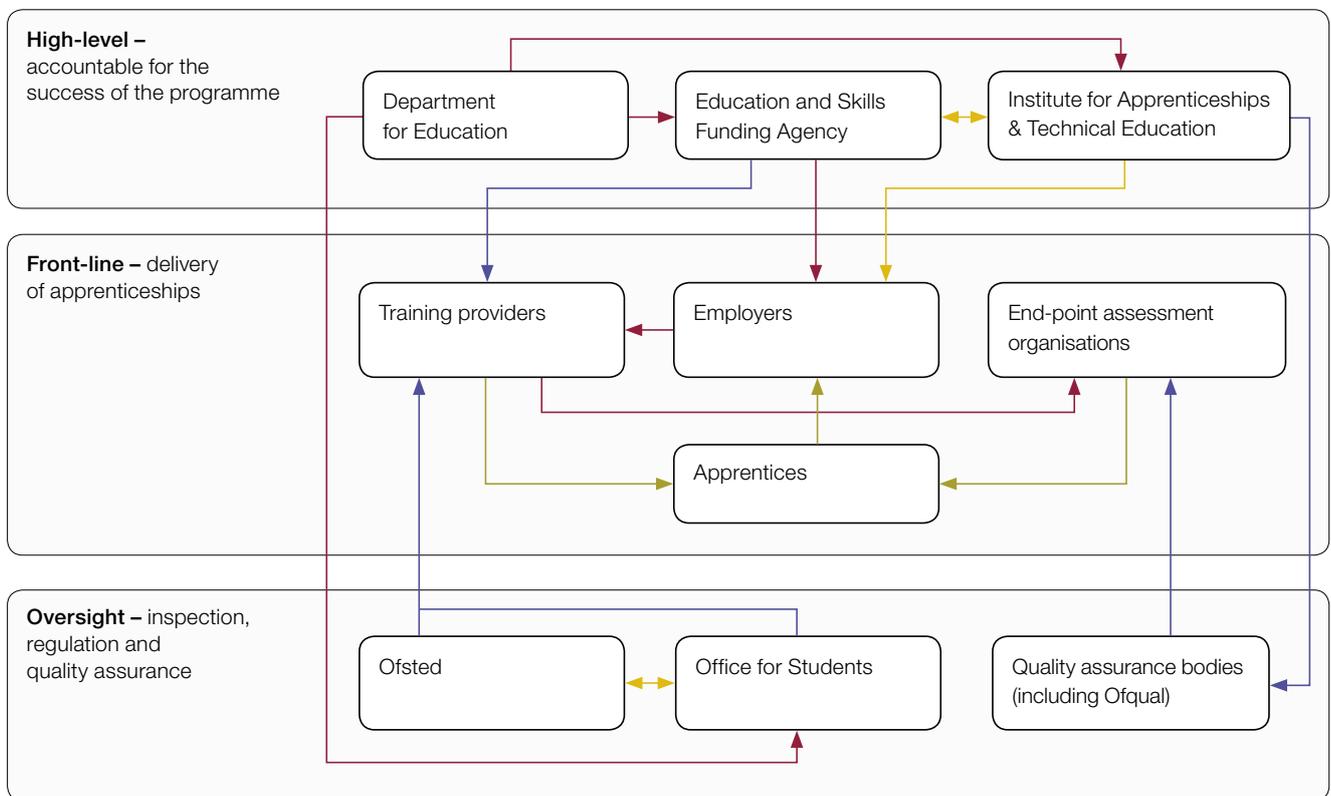
Oversight of apprenticeships

3.1 This part of the report covers how the Department for Education (the Department) assesses whether the apprenticeships programme is achieving the intended benefits, and oversight of apprenticeship training and assessment.

3.2 The system for overseeing apprenticeships is complex, involving a large number of organisations (**Figure 10**). They need to work together effectively to mitigate the risk of overlaps or gaps. In December 2018, the Department set out the responsibilities of each organisation with a role in the apprenticeships system.¹⁶

Figure 10

Main organisations involved in overseeing apprenticeships



→ Flow of public funding → Liaison/coordination → Inspection, regulation and oversight → Delivery of services

Source: National Audit Office

16 Department for Education, *Apprenticeship Accountability Statement*, December 2018.

Assessing the impact of the programme

3.3 The Department has improved how it assesses the impact of the apprenticeships programme. In November 2016, the Committee of Public Accounts expressed concern that the target to facilitate 3 million new apprenticeships was the programme's only performance measure.¹⁷ The Committee recommended that the Department should publish, and regularly report on, a broader range of measures. In response, the Department published a benefits realisation strategy in March 2017, with performance measures for the programme's four objectives. **Figure 11** shows the measures relating to meeting employers' skills needs and creating progression for apprentices.¹⁸ The Department also monitors other indicators, including achievement rates and retention rates, but has not set targets for them.

Figure 11

The Department's performance measures relating to skills and progression

Description	Progress and observations
Meeting the skills needs of employers	
Improve the value of apprenticeships: using a 'skills index' to estimate the total value-added of learners who successfully complete their course.	<ul style="list-style-type: none"> ● Increase of 3% in 2016/17 compared with 2015/16 (index rating not published). ● This measure draws on data used for other measures, so some changes are effectively double-counted.
Increase the proportion of employers reporting that apprenticeships have helped develop skills relevant to the needs of their business.	<ul style="list-style-type: none"> ● 84% in 2017 (baseline), compared with 87% in 2015. ● The survey of employers is not run often enough for progress against this measure to be reported annually.
Increase employer satisfaction with the quality of their apprentices and apprenticeship training: using progression measures (below) as a proxy.	<ul style="list-style-type: none"> ● This is not measured directly, and draws on data used for other measures.
Creating progression for apprentices	
Improve earnings outcomes : annual median earnings of apprentices, one to four years after completion.	<ul style="list-style-type: none"> ● Earnings at all levels rose between 2010/11 and 2014/15. ● Performance is not benchmarked against wage inflation or other comparable groups.
Increase the proportion of learners who progress to a sustained destination after completion ('sustained destination' means employment or learning at a higher level).	<ul style="list-style-type: none"> ● 85% in 2014/15, compared with 87% in 2013/14. ● No target set.
Increase the proportion of apprentices who agree that their career prospects have improved.	<ul style="list-style-type: none"> ● 85% in 2017, compared with a baseline of 83% in 2015; aiming for 88% in 2020. ● The survey of apprentices is not run often enough for progress against this measure to be reported annually.

Source: National Audit Office review of documents from the Department for Education

¹⁷ Committee of Public Accounts, *The apprenticeships programme*, Twenty-eighth Report of Session 2016-17, HC 709, November 2016.

¹⁸ The performance measures relating to: creating more quality apprenticeships are covered in paragraphs 2.2, 2.3, 2.7 and 2.8; and widening participation and social mobility are covered in paragraphs 2.9 to 2.11.

3.4 Performance to date has been mixed, although it is too early to assess progress against several longer-term indicators. In May 2018, the Department published a progress report which showed:

- positive results including a 3% rise in the ‘skills index’, due to an increase in successful apprentices at level 3 or above, and higher earnings outcomes at all levels; and
- disappointing results including a fall in retention rates from 64% to 60% (apprentices remaining with their employer 13–21 months after completing their apprenticeship), and a 2% fall in the proportion of successful apprentices progressing to a sustained destination.

It should be noted that many of the results to date relate to older apprenticeships that took place before the reforms to the programme in 2017.

3.5 The Department now has a set of performance measures that provide better insight into the programme’s impact. It could strengthen its approach further by addressing the fact that there is no obvious prioritisation in the existing measures, meaning that the Department cannot demonstrate in a simple way whether the programme is succeeding. In addition, the focus on starts rather than completions obscures the large number of people who fail to complete their apprenticeship successfully. In 2016/17, 32% of apprentices (132,100 out of 409,000) did not achieve their apprenticeship.

3.6 Ultimately the apprenticeships programme is intended to boost economic productivity. As we recognised in a technical paper supporting our 2012 report on adult apprenticeships, it is difficult to assess the impact of any particular qualification on someone’s productivity.¹⁹ In that report, we followed many other researchers in this area by measuring how apprenticeships were associated with wage changes – specifically whether successful apprentices tended to earn higher wages than other employees with similar characteristics who did not complete an apprenticeship.²⁰ The Department takes a broadly similar approach when making calculations that contribute to its ‘skills index’ (see Figure 11), which it regards as a proxy measure of the programme’s impact on productivity. However, it has not set out how these calculations feed into the index, or what kind of increase in the index would constitute ‘success’.

3.7 The Department argues that the programme is a good fit with the Industrial Strategy that the government launched in 2017, although it has not set out explicitly how the two link together.²¹ Apprenticeships are one way in which government intends to address the skills gaps summarised in the Industrial Strategy. However, it is not clear whether the Department would be prepared to intervene to promote apprenticeships in priority areas or sectors.

19 National Audit Office, *Estimating economic benefits from apprenticeships – Technical paper*, February 2012.

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

21 HM Government, *Industrial Strategy: Building a Britain fit for the future*, Cm 9528, November 2017.

The ESFA's oversight of training providers

Provider market

3.8 The Department wants employers to be able to choose from more high-quality training providers, and providers to become increasingly responsive to employers' needs. Around 60% of apprenticeship training is delivered by independent training providers; further education colleges and universities provide most of the rest. The Department expects the provider market to change such that by 2020:

- there are fewer colleges but these are larger and higher-quality and take a greater share of the market;
- more employers offer apprenticeship training directly; and
- universities provide higher- and degree-level apprenticeship training.²²

3.9 In recent years, the number of training providers has increased. Since October 2016, the Education and Skills Funding Agency (the ESFA) has maintained a register of providers approved to deliver apprenticeship training to levy-paying employers. In December 2018, there were around 2,600 providers on the register (including some registered to deliver as subcontractors), a significant increase on the just over 800 bodies that were providing training before the levy was introduced. Many providers on the register are new to the market, and at December 2018 around 900 had not contracted with any employer.

3.10 In summer 2018, the ESFA reviewed the register and decided that the risk of it containing sub-standard providers was too high. In November 2018, it announced plans to revise the register; the entry criteria will become more stringent and existing providers will have to reapply.

3.11 Employers and training providers raised concerns with us about the pricing of standards. With advice from the Institute for Apprenticeships & Technical Education (the Institute), the Department sets a funding band for each standard that determines the maximum public funding that can be used towards that apprenticeship. These maximum amounts range from £1,500 to £27,000. The Department expects employers to negotiate prices with providers, but in practice this appears to be rare and employers are generally paying the maximum rates. Stakeholders told us that it is not clear how the funding bands are set, and that some of the standards are priced too low.

Providers' compliance with funding rules

3.12 The ESFA has recognised that it could strengthen its approach to ensuring that funding for apprenticeship training is used appropriately. In summer 2018, it started a project to improve its compliance activities. It identified 14 red-rated risks (risks with high impact and high probability), including funds being claimed where apprentices gain no new skills and increased numbers of low-quality providers.

²² HM Government, *English Apprenticeships: Our 2020 Vision*, December 2015.

3.13 The ESFA identified a combination of prevention or detection actions that mitigated most of these risks. However, at that time it had fewer mitigating actions to address four risks relating to providers subcontracting training provision, including no actions to mitigate the risk that subcontractors are not of the required quality or financial health. The ESFA has since stipulated that, from August 2019, all subcontractors will have to be on the register of approved providers in order to deliver apprenticeship training.

3.14 The ESFA recorded just one red risk after taking account of mitigating actions – that apprentices do not spend at least 20% of their time doing off-the-job training. If apprentices do not receive enough training, they have a poorer experience and may be less likely to complete their apprenticeship.

3.15 The ESFA does not yet have an effective way to identify providers that may routinely deliver less training than the apprentice is entitled to. It mandates the hours of learning in apprenticeships, and may ask providers to show that learners are on course at particular points. The ESFA's audits may identify problems, but there is scope for providers to under-deliver for some time without this being picked up. This is an important gap in oversight, because the provider continues to be paid as long as the apprentice remains on the programme.

Providers' performance

3.16 The ESFA uses three main sources of information to monitor the performance of post-16 education and skills providers, including those delivering apprenticeship training: the proportion of learners achieving their qualifications; the results of Ofsted inspections or visits; and providers' financial performance in terms of their financial health and ability to exercise appropriate financial control. The ESFA brings together this information, together with other indicators such as the outcomes of its audits and the value and volume of subcontracting, to inform its risk assessment of each provider.

3.17 The ESFA has three key triggers for intervening with a provider:

- the provider's achievement rates for apprenticeship training fall below the national minimum standards;
- Ofsted gives the provider an inspection rating of inadequate for overall effectiveness or for the quality of apprenticeship training; or
- the ESFA assesses the provider's financial health and/or control to be inadequate.

3.18 The proportion of providers in scope for intervention because their achievement rates are below minimum standards for apprenticeships has increased considerably, although the figures are not fully comparable because the ESFA's approach has become more rigorous. In 2016/17, 27% of providers met this criterion for intervention (**Figure 12**). The total number of providers in scope for intervention will have been higher than this but, for the other two triggers listed above, it is not possible in all cases to establish the extent to which the apprenticeships training provision specifically contributed to the provider meeting the criteria for intervention.

3.19 Up to 2016/17, the ESFA's initial sanction for a provider that met the 'minimum standards' criterion for intervention was to issue a 'notice of concern' or a 'notice of serious breach'. It then changed its approach and now issues additional conditions of funding or additional contractual obligations, or both. In most cases, the provider is required to develop and implement an improvement plan in order to avoid more serious sanction. In the most serious cases, the ESFA may terminate a provider's contract. Eleven providers have had their contracts terminated in the past five years.

3.20 The ESFA also takes action where an Ofsted early monitoring visit (see paragraph 3.27) finds that a new provider has made 'insufficient progress' under one or more of the areas assessed. For example, the provider cannot start to train any new apprentices and must inform the employers with which it is working.

Figure 12

Action taken by the Education and Skills Funding Agency (ESFA) where providers' achievement rates for apprenticeship training fell below national minimum standards, 2012/13 to 2016/17

More than a quarter of providers were in scope for intervention in 2016/17 because their achievement rates for apprenticeship training fell below national minimum standards

Year	Number of providers	Providers in scope for intervention	Notices of concern issued	Notices of serious breach issued	Contracts terminated
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
2015/16	779	148 (19.0%)	13	23	2
2016/17	737	198 (26.9%)	See note 2	See note 2	5

Notes

- 1 At the time of our work, the ESFA had not finalised its analysis for 2017/18.
- 2 In 2016/17, the ESFA changed its approach, to issue additional conditions of funding and/or additional contractual obligations instead of notices of concern or notices of serious breach. It issued 78 of these additional conditions/obligations during that year.
- 3 In 2015/16, the ESFA began to apply minimum standards more rigorously by: increasing the threshold (the minimum expected proportion of learners achieving their apprenticeship) from 55% to 62%; and changing its definition of proportionality (how large, in relative terms, the group of learners failing to achieve their apprenticeship would need to be, for the ESFA to consider intervening).

Assessing the quality of apprenticeship training

3.21 Responsibility for providing assurance about the quality of apprenticeship training is shared between Ofsted and the Office for Students (the OfS).²³ Ofsted covers training from level 2 to level 5, while the OfS covers training at levels 6 and 7. Where OfS-registered providers deliver apprenticeship training at levels 4 or 5, the OfS will provide Ofsted with relevant information to inform its inspection judgements.

3.22 Ofsted applies a structured inspection framework to apprenticeship training providers (paragraphs 3.23 to 3.25). The OfS regulates higher education at the providers on its register by ensuring that they satisfy baseline quality conditions. Providers are then subject to ongoing risk assessment. The OfS may carry out enhanced monitoring of providers judged to be at increased risk of breaching the quality conditions, or may apply additional registration conditions. Providers that are found to have breached their registration conditions may be subject to sanctions, such as monetary penalties, suspension or deregistration.

Ofsted's inspections of established providers

3.23 Ofsted conducts inspections based on assessed risk and any emerging concerns about providers. Its schedule of inspections for established providers is based on the rating that the provider received in its most recent inspection.²⁴

3.24 Ofsted rated 58% of the 113 established providers that it inspected in 2017/18 as good or outstanding for their apprenticeship training, compared with 49% in 2016/17. Ofsted rated apprenticeship training as inadequate in 12% of providers. The good and outstanding providers were generally training larger numbers of apprentices. As a result, around two-thirds of the apprentices recorded at the time of inspection were being trained in good or outstanding providers.

3.25 The remaining third of apprentices were with providers rated as inadequate or requires improvement. Among these providers, inspectors found issues such as:

- apprentices who were not spending 20% of their time doing off-the-job training;
- apprenticeships that were only accrediting existing skills; and
- staff who were not using the results of assessments completed at the start of the programme to plan apprentices' learning.

²³ The Office for Students is the independent regulator of higher education in England.

²⁴ A provider previously judged as: 'outstanding' is not subject to routine re-inspection unless its performance declines or there is another compelling reason; 'good' will usually receive an inspection, normally a short inspection, within five years; 'requires improvement' will normally have a full re-inspection within 12 to 24 months, and a monitoring visit before the full re-inspection; and 'inadequate' will have monitoring visits and a full re-inspection within 15 months.

Ofsted's inspections of new providers

3.26 The growing number of apprenticeship training providers has increased Ofsted's workload. The number of independent providers and employer-providers has more than doubled, from just over 490 in August 2017 to nearly 990 in August 2018. Ofsted has been allocated additional funding (up to £5.4 million between autumn 2018 and March 2020) to cover new apprenticeship training providers.

3.27 Ofsted has initiated a new approach, which involves a monitoring visit at each new provider that it has not yet inspected. The visit takes place within 24 months of the provider starting to receive direct funding from the ESFA or through the apprenticeship levy, and normally lasts two days. During the monitoring visits, Ofsted assesses providers' progress in three areas:

- meeting all the requirements of successful apprenticeship provision;
- ensuring that apprentices benefit from high-quality training that leads to positive outcomes; and
- ensuring that effective safeguarding arrangements are in place.

Ofsted will normally carry out full inspections of providers that receive an 'insufficient progress' rating in one or more areas within six to 12 months.²⁵

3.28 Ofsted's monitoring visits in 2018 found that more than one-fifth of new providers were making insufficient progress in at least one area (**Figure 13**). This may not be representative of all providers, however, because Ofsted's approach is to prioritise those bodies that it considers present a higher risk.

Assessments at the end of apprenticeships

Assessment organisations

3.29 When an employer group designs a standard (see paragraph 1.11) it also creates an assessment plan that sets out how apprentices' occupational competence will be assessed at the end of their apprenticeship. The end-point assessments are undertaken by organisations that are independent of the apprentice's employer and training provider.

3.30 The ESFA's register of assessment organisations indicates that, at the time of our work, some apprentices had started apprenticeships on standards that did not have assessment organisations in place (1,600 apprentices on 19 standards), and many standards had only one assessment organisation (98 standards covering 18,300 apprentices).²⁶ Stakeholders that we consulted raised concerns about capacity. As the number of apprentices finishing apprenticeships on standards increases, there is a risk that some assessment organisations may not have sufficient capacity, leading to unnecessary delays or inconsistency in assessments.

²⁵ If providers are judged to have made 'insufficient progress' with respect to safeguarding, they will also normally receive one further monitoring visit to review only their safeguarding arrangements, within four months of the previous monitoring visit.

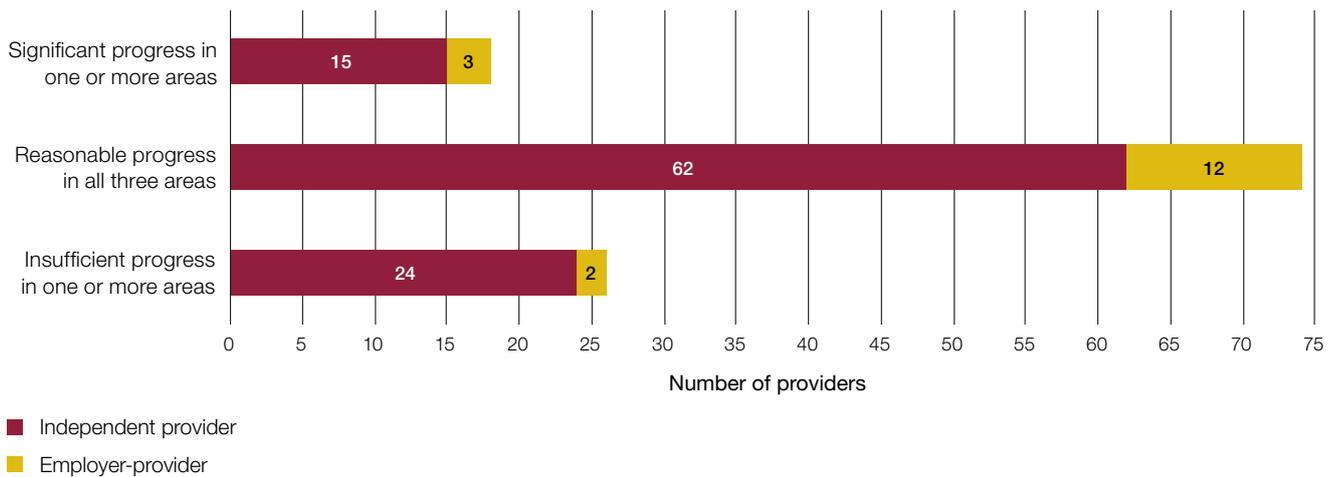
²⁶ The assessment plans for five standards, covering around 8,600 apprentices, mandate that there can only be one assessment organisation.

Figure 13

Outcomes of Ofsted's monitoring visits to new apprenticeship training providers in 2018

Ofsted assessed that more than one-fifth of providers were making insufficient progress in at least one area

Ofsted assessment of progress

**Notes**

- 1 Ofsted published monitoring visit reports on 118 new apprenticeship training providers during 2018.
- 2 Ofsted monitoring visits look at progress in three areas: meeting all the requirements of successful provision; ensuring apprentices benefit from high-quality training that leads to positive outcomes; and ensuring that effective safeguarding arrangements are in place. Progress in each area can be judged to be insufficient, reasonable or significant.
- 3 No providers were assessed to have made significant progress in one area and insufficient progress in another area.

Source: Annual Report of Her Majesty's Chief Inspector of Education, Children's Services and Skills 2017/18 and Ofsted management information

Quality assurance

3.31 For each standard, the employer group also chooses an independent body to assure the quality of the end-point assessment organisation(s). This quality assurance body is responsible for ensuring that the assessment that apprentices undertake at the end of their apprenticeship is fair, consistent and robust. It is unclear, however, that all quality assurance bodies provide the same level of assurance; for example, the Office of Qualifications and Examinations Regulation (Ofqual) is a regulatory body and therefore has greater powers than other quality assurance bodies.

3.32 The Institute has a significant role in carrying out quality assurance, as well as approving other quality assurance bodies. However, this approval process is not a prerequisite for a standard being approved for delivery, or for an assessment organisation undertaking end-point assessments. So there is a risk that apprentices' end-point assessments may be done without the required external quality assurance arrangements. In addition, the Institute is the listed quality assurance body for 45% of approved standards, even though it intended to take on this role only when there was no viable alternative.²⁷

²⁷ In practice, quality assurance is carried out by a third party on behalf of the Institute.

Appendix One

Our audit approach

1 This report assesses whether the apprenticeships programme is providing value for money. It examines progress since we last reported on apprenticeships in September 2016 when the Department for Education (the Department) was in the early stages of expanding and reforming the programme.

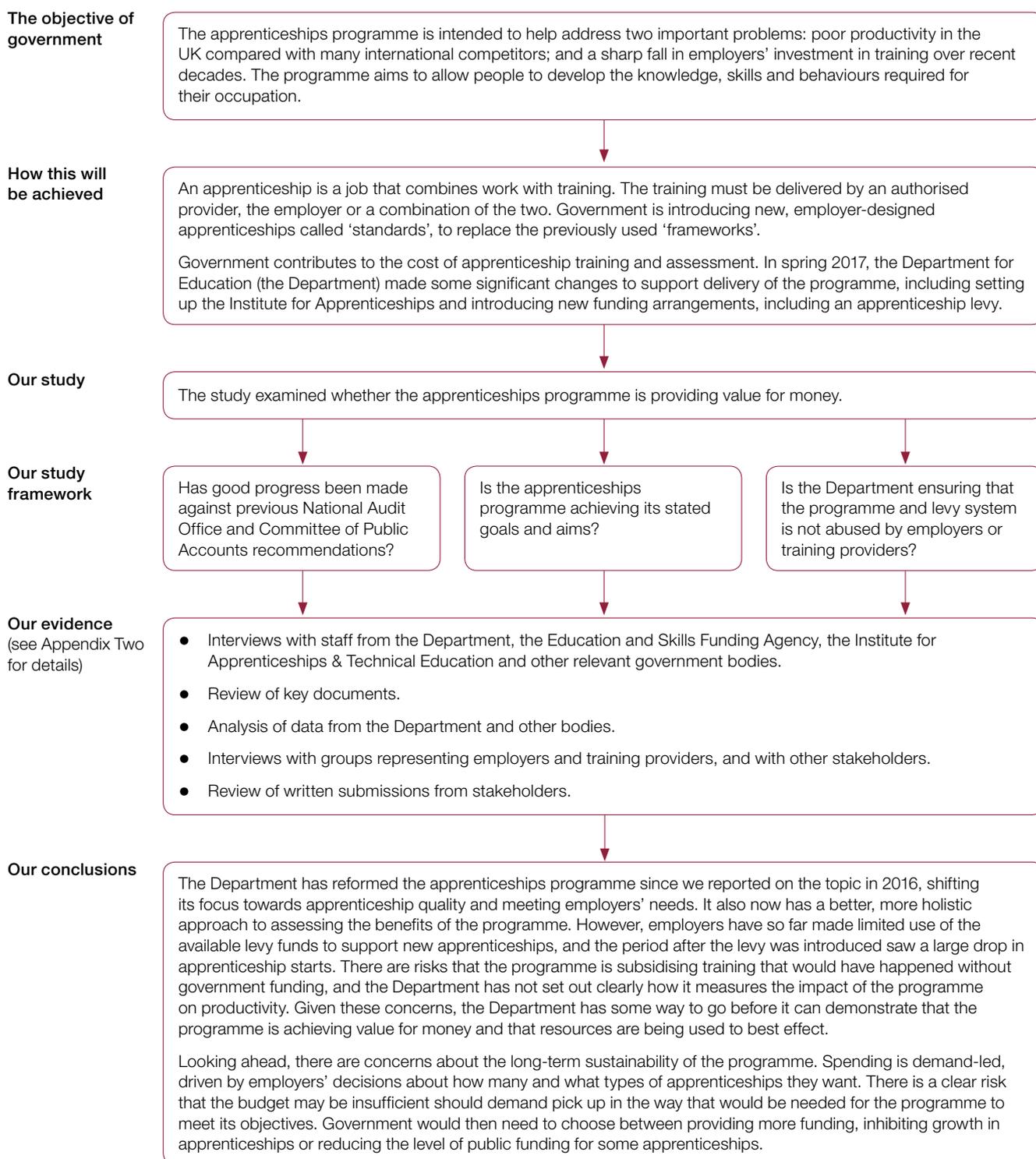
2 The report examines:

- the programme's spending and budgeting;
- the number and type of apprenticeships being carried out; and
- oversight of apprenticeships.

3 We applied an analytical framework with evaluative criteria, which considered what arrangements would be optimal for achieving value for money. By 'optimal' we mean the most desirable possible, while acknowledging expressed or implied restrictions or constraints.

4 Our audit approach is summarised in **Figure 14**. Our evidence base is described in Appendix Two.

Figure 14
Our audit approach



Appendix Two

Our evidence base

1 We reached our independent conclusions on whether the apprenticeships programme is providing value for money after analysing evidence collected between May 2018 and February 2019. Our audit approach is outlined in Appendix One.

2 In designing and carrying out our work, we took account of previous National Audit Office reports on skills development. In particular, we drew on our 2016 report on the apprenticeships programme and the subsequent Committee of Public Accounts report.^{28,29}

3 We interviewed staff from each of the government bodies which has a role in the design, funding, delivery or oversight of the apprenticeships programme:

- the Department for Education (the Department) – staff responsible for apprenticeships policy and programme management;
- the Education and Skills Funding Agency (the ESFA) – staff responsible for project and programme management, running the online service, procurement, employer engagement, risk management, financial modelling and intervention policy;
- HM Treasury – the spending team that covers education;
- the Institute for Apprenticeships & Technical Education (the Institute) – staff responsible for standards development, apprenticeship assessment and quality, and data science;
- Ofsted – staff responsible for inspecting the further education sector, including apprenticeship training provision;
- the Office for Students – staff responsible for regulating higher education institutions that deliver apprenticeship training;
- the Office of Qualifications and Examinations Regulation (Ofqual) – staff responsible for overseeing vocational and technical qualifications; and
- the Quality Assurance Agency for Higher Education – staff responsible for working with the Office for Students in regulating higher education institutions that provide apprenticeship training.

²⁸ Comptroller and Auditor General, *Delivering value through the apprenticeships programme*, Session 2016-17, HC 624, National Audit Office, September 2016.

²⁹ Committee of Public Accounts, *The apprenticeships programme*, Twenty-eighth Report of Session 2016-17, HC 709, November 2016.

4 We reviewed key documents, including the following:

- The Department's December 2018 Apprenticeship Accountability Statement. We used this to understand responsibilities and accountabilities for the programme.
- The Department's strategic business case for the programme and papers on managing financial risk. We used these to understand the rationale behind key decisions that the Department and the ESFA made, and to review the Department's assessments of the programme's costs.
- The ESFA's funding compliance risk register. We used this to assess how the ESFA manages and mitigates risks that stakeholders do not follow the funding rules or provide high-quality training.
- The Department's March 2017 apprenticeships benefits realisation strategy and May 2018 progress report. We used these to understand how the Department developed its performance measures for the programme, and how the programme is performing against these measures.
- The ESFA's programme dashboards. We used these to understand the management information being used to manage the programme, and to extract specific facts and figures for our report.
- Material supporting the development of the online apprenticeship service. We used this to review how the ESFA had designed the service.
- Ofsted's annual reports, business case for conducting monitoring visits and inspection handbook. We used these to review Ofsted's assessments of the quality of apprenticeship training, and its rationale for monitoring visits.

5 We analysed the following data from the Department, the ESFA, the Institute and Ofsted:

- Data on the number of apprenticeship starts by month and year, looking at characteristics such as sector and subject area, level, ethnic group, disability, disadvantage, gender, age and geography. We used these data to:
 - analyse the changes in the number of apprenticeships over time;
 - understand the move from frameworks to standards;
 - analyse performance against measures relating to skills, progression and participation; and
 - examine performance against the statutory public sector target and review differences between reporting organisations.
- Data on financial projections. We used these data to understand how the Department and the ESFA monitor the costs of the programme and changes in financial risk and affordability.

- Data on Ofsted's assessments of apprenticeship training providers. We used these data to understand the performance of established providers subject to full inspections, and the progress of new providers subject to monitoring visits.
- Data from the Institute on the development of standards. We used these data to understand the development process for apprenticeship standards, and the associated timeframes.

6 We interviewed a range of stakeholders, representative groups and local bodies, some of which also sent us written evidence. This helped us to understand stakeholders' views on different aspects of the apprenticeships programme, and the impact of the changes to the programme on employers and training providers. We interviewed the following organisations:

- Employers and groups representing them:
 - the Confederation of British Industry;
 - EEF – The Manufacturers' Association;
 - Energy and Utility Skills Limited;
 - the Federation of Small Businesses; and
 - Manpower UK (which is also an apprenticeship training agency).
- Training providers and groups representing them:
 - the Association of Colleges;
 - the Association of Employment and Learning Providers;
 - Burton and South Derbyshire College;
 - the College of Haringey, Enfield and North East London;
 - the Construction Industry Training Board; and
 - Lifetime Training.
- Other stakeholders:
 - Black Country Local Enterprise Partnership;
 - the Chartered Management Institute;
 - the Federation for Industry Sector Skills and Standards;
 - the Learning and Work Institute;
 - the Local Government Association;
 - the Royal Town Planning Institute; and
 - Tom Richmond, a researcher and writer on apprenticeships.

7 We also received written submissions from the following stakeholders whom we did not interview:

- Cornwall Chamber of Commerce;
- De Montfort University;
- Devon County Council;
- Focus Training Group;
- Greater Manchester Combined Authority;
- Kirklees Council;
- Leeds City College;
- the National Hairdressers' Association;
- Portsmouth City Council;
- QA Limited;
- the Royal Society of Chemistry;
- Shropshire Council;
- Somerset Council;
- University of Chichester;
- University of the West of England;
- the University Vocational Awards Council;
- Volvo Group UK and Eire;
- Walsall Council; and
- West Yorkshire Combined Authority.

8 We held a focus group with apprenticeship training providers and end-point assessment organisations. This helped us to understand participants' views on the aims of the apprenticeships programme and how things are working in practice, as well as the impact of the changes to the programme. The organisations that took part in the focus group were:

- Arch Apprentices;
- the Association of Employment and Learning Providers;
- Babcock Assessments Ltd;
- DSW Apprenticeships;
- Hawk Training;
- Innovate Awarding;
- Just IT;
- Lifetime Training; and
- Outsource Training.

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