



House of Commons

Committee of Public Accounts

Adult Apprenticeships

**Eighty-fourth Report of Session
2010–12**



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*Report, together with formal minutes, oral and
written evidence*

*Ordered by the House of Commons
to be printed 23 April 2012*

Committee of Public Accounts

The Committee of Public Accounts is appointed by the House of Commons to examine "the accounts showing the appropriation of the sums granted by Parliament to meet the public expenditure, and of such other accounts laid before Parliament as the committee may think fit" (Standing Order No 148).

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Mr Richard Bacon (*Conservative, South Norfolk*)
Mr Stephen Barclay (*Conservative, North East Cambridgeshire*)
Jackie Doyle-Price (*Conservative, Thurrock*)
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Chris Heaton-Harris (*Conservative, Daventry*)
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The following Members were also Members of the committee during the parliament:

Dr Stella Creasy (*Labour/Cooperative, Walthamstow*)
Justine Greening (*Conservative, Putney*)
Joseph Johnson (*Conservative, Orpington*)
Eric Joyce (*Labour, Falkirk*)
Rt Hon Mrs Anne McGuire (*Labour, Stirling*)

Powers

The committee is one of the departmental select committees, the powers of which are set out in House of Commons Standing Orders, principally in SO No 152. These are available on the internet via www.parliament.uk.

Publications

The Reports and evidence of the Committee are published by The Stationery Office by Order of the House. All publications of the Committee (including press notices) are on the internet at www.parliament.uk/pac. A list of Reports of the Committee in the present Parliament is at the back of this volume. Additional written evidence may be published on the internet only.

Committee staff

The current staff of the Committee is Philip Aylett (Clerk), Sonia Draper (Senior Committee Assistant), Ian Blair and Michelle Garratty (Committee Assistants) and Alex Paterson (Media Officer).

Contacts

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Summary

The successful Apprenticeship Programme (the Programme) involves work-related training for full-time employees in England. The Department for Business, Innovation and Skills (the Department), which has responsibility for adult apprenticeships (ages 19 and over), works with its partners, the Skills Funding Agency (the Agency) and the National Apprenticeship Service (the Service), to deliver the Programme. Adult apprentices represented 325,500, or 71%, of the 457,200 apprentices who started their apprenticeship in the 2010/11 academic year. During the 2010-11 financial year the Department spent £451 million on adult apprenticeships.

The Programme has been a success: the Department and its partners have more than quadrupled the number of adult apprenticeships in the four years to 2010/11 and the proportion of adult apprentices successfully completing their apprenticeship has also risen, from around a third in 2004/05 to over three-quarters in 2010/11.

The National Audit Office found that completed apprenticeships were associated with economic benefits of around £18 per £1 of public funding; although these estimates did not take into account the extent to which employers would have paid for training in the absence of public funding because the Department had yet to make such an assessment.

While we commend the leadership provided by the Service and recognise the successes of the Programme, further work needs to be done to maximise its impacts. The Department should improve its understanding of which apprenticeships offer the biggest returns. The Service should give both employers and individuals better information about the benefits arising from different types of apprenticeship, as well as about the quality of the many training providers. The Service should do more to increase the number of employers offering apprenticeships, and to increase the proportion of advanced skill level apprenticeships achieved, moving England closer to the levels delivered in other European countries.

Importantly, around one in five apprenticeships lasted for six months or less. The service accepts our concern that apprenticeships lasting for such a short period are of no proper benefit to either individuals or employers. The service says it is tackling the problem but it needs to do more to guarantee the length and quality of training—especially the off-the-job training apprentices receive.

The Service and the Agency also need to develop a proper understanding of the cost of delivering apprenticeship training. At present, they do not know whether they are paying too much for some apprenticeships.

On the basis of a Report by the Comptroller and Auditor General,¹ we took evidence from the Department for Business, Innovation and Skills, the Skills Funding Agency and the National Apprenticeship Service.

1 C&AG's Report, *Adult Apprenticeships*, Session 2010-12, HC 1787

Conclusions and recommendations

- 1. We recognise the significant achievement of the Department and its partners in raising both the number of adult apprentices and the percentage who successfully complete their apprenticeship.** The number of adult apprenticeships rose to 325,500 in 2010/11 compared with 79,000 in 2006/07, while the proportion of adult apprentices who successfully completed their apprenticeship rose to 78% in 2010/11, compared with just 34% six years before.
- 2. The Programme is estimated by the NAO to deliver a positive economic return of £18 for each £1 spent, but to improve its targeting of resources the Department needs a better understanding of which apprenticeships in which sectors deliver the greatest value for money.** Without better data on the impacts of apprenticeships in different employer sectors, the Department is not well-placed to target its efforts where it might have best impact. Moreover, estimates of economic returns do not include an assessment of ‘additionality’—the extent to which public funding results in training that would not have happened in its absence. To the extent that employers would have paid for training anyway, the estimates of returns on public investment would have to be reduced in step. The Department should carry out research during 2012 into the impacts of apprenticeships in different sectors, including estimates of additionality, and use this information to better direct its efforts and improve the financial return of the Programme to the economy.
- 3. The Department needs better information to promote the benefits of apprenticeships to employers and individuals.** England lags behind other countries in terms of the size of its Apprenticeship Programme and in terms of the proportion of people undertaking Advanced level apprenticeships. Many employers still see apprenticeships as a cost rather than an investment, and individuals considering their education and training options are less likely in England to understand the long-term personal benefits of taking up apprenticeships. The need for better, publicly available, information will become particularly acute from the 2013/14 academic year, when learner loans are introduced and individuals aged 24 and over will be required to contribute financially to meet the cost of advanced apprenticeships. Before 2013/14, the Service should publish comprehensive information aimed at employers and individuals on: the costs and benefits of apprenticeships (in each sector), the relative benefits of attending university as compared to undertaking an apprenticeship, the quality of individual training providers, and ways of accessing the Programme.
- 4. We have concerns about the number of short training programmes classified as apprenticeships and about the quality and amount of training some apprentices receive which we consider is inadequate and poses risks to the value of the Programme to individuals and employers.** Around a fifth (19%) of apprenticeships lasted for six months or less in 2010/11, when the Service expects most to last between one and four years. We welcome the fact the Service has started taking action to tackle providers of short duration apprenticeships. It also needs to strengthen its arrangements for ensuring that apprentices receive their statutory

amount of off-the-job training. Given a recent survey the Department itself published showing that less than half of apprentices surveyed said they received off-the-job training the Service should set out in its response how and when it will take action with the sector.

5. **The Service does not know whether it is paying training providers too much for some apprenticeships.** While the Service pays providers less for types of apprenticeship requiring less training the way it has calculated the rates is based on out-of-date assumptions. The Service does not know what level of profits providers are making on different types of apprenticeship; nor does it know whether it is subsidising some apprenticeships more than others. There is also evidence to suggest some providers are providing training without receiving the expected contribution from employers. The Service should work closely with the Agency to link the funding it provides more closely with the delivery costs.
6. **The relationship between the National Apprenticeship Service and Skills Funding Agency remains unclear.** The way in which the two bodies interact, and the question of who is responsible and accountable for what, still needs to be clarified. This will be particularly important to settle during 2012, given the Department needs to appoint new permanent chief executives in each body. The Department should review the organisation of the Service and Agency, to ensure working arrangements are clear and there is minimal duplication.

1 Maximising the benefits

1. The Apprenticeship Programme involves work-related training for full-time employees in England. An apprenticeship is a package of training, comprising: a vocational element, through which an apprentice demonstrates competence in a specific role; a knowledge element, covering the theoretical knowledge required in a particular sector; and training in 'key' or 'functional skills', leading to qualifications in maths, English, and (depending on the apprenticeship) information and communications technology (ICT).²

2. There are three levels of apprenticeship: Intermediate (roughly equivalent to five A*-C GCSEs), Advanced (roughly equivalent to two A-levels), and Higher (roughly equivalent to a foundation degree).³ There are two main routes to becoming an apprentice: some are recruited by an employer specifically as an apprentice, while others are existing employees who are placed onto an apprenticeship scheme within their workplace. Around 70% of apprentices as a whole (taking all ages together) are existing employees. Apprentices aged 25 and over are even more likely to have worked for their employer prior to enrolment (94%).⁴

3. The Programme is jointly overseen by the Department for Business, Innovation and Skills (the Department) and the Department for Education, with the former taking responsibility for adult apprenticeships (ages 19 and over). Adults represented 325,500, or 71%, of the 457,200 who started an apprenticeship in the academic year 2010/11.⁵ The total public funding provided for the Programme was £1.2 billion in the financial year 2010-11, of which £451 million was for adults.⁶ The Department works with its partners, the Skills Funding Agency (the Agency) and the National Apprenticeship Service (the Service), to deliver the Programme. There are around 900 training providers contracted with the Service to deliver apprenticeship training.⁷

4. The Department and its partners have successfully increased the number of apprentices. Apprenticeship starts as a whole grew by 148% in the four years to 2010/11, with adults (ages 19 and over) as a sub-group growing by 313%.⁸ The percentage of adult apprentices successfully completing their apprenticeship has also risen, from 34% in 2004/05 to 78% in 2010/11.⁹

2 Department for Business, Innovation and Skills, *Specification of Apprenticeship Standards for England*, paras 6-8, <http://www.lsect.co.uk/documents/SASE-20-01-11.pdf>

3 C&AG's Report, para 1.4

4 Q 4; Department for Business, Innovation and Skills, *Apprenticeship Pay Survey 2011*, March 2012, p 47

5 The Data Service, *Statistical First Release*, 31 January 2012

6 C&AG's Report, para 1.6

7 C&AG's Report, para 1.1

8 The Data Service, *Statistical First Release: Apprenticeship Supplementary Tables*, February 2012, http://www.thedataservice.org.uk/NR/rdonlyres/DA4D9EF2-9A0E-47CD-8E70-67F138D02376/0/January2012_Quarterly_Apprenticeships.xls

9 Q 53

5. The National Audit Office (NAO) has found that completed apprenticeships on average are associated with estimated economic benefits of around £18 per £1 of public funding.¹⁰ This is lower than the Department's estimate of a return of around £28 per £1, a difference due mainly to the NAO making a lower estimate of the extent to which apprentices increase the productivity of their employer's business.¹¹

6. In our 2010 report on 'Train to Gain', another work-based training programme funded by the Department, we were critical of the level of 'additionality' it achieved—in other words, the extent to which public funding led to training that would not have happened anyway.¹² The Department has not yet assessed the additionality of the Apprenticeship Programme. To the same extent that employers would have paid for training anyway, existing estimates (both the NAO's and the Department's) of the economic returns on public funding would have to be cut.¹³ While the Service told us the additionality of the Programme was 'absolutely unequivocal', it had not attempted to substantiate that claim.¹⁴

7. The NAO found that economic returns on apprenticeship funding may vary significantly across sectors. The Service told us it had eight priority sectors, and that it worked 'with the sectors that have higher value for money'.¹⁵ However, so far the Department has not attempted to prioritise its spending according to which types of apprenticeship might yield higher returns.¹⁶

8. In 2010, 5% of employers in England had apprentices compared to, for example, 24% in Germany and 30% in Australia. The Service suggested that employers in England were more likely to regard training as a cost rather than an investment, and that vocational skills were more valued in countries such as Germany.¹⁷ The Service conceded it had more work to do to make the business benefits of employing apprentices clear to employers.¹⁸ The proportion of apprentices at Advanced-level and above is also lower in England, at 33% in 2010/11, compared to countries such as France, where it is around 60%. The Service explained that it was difficult to make rapid progress in converting Intermediate-level apprentices to Advanced-level, since in many cases it required the individual to first get promotion. There has been little change in the proportion of apprentices working towards an Advanced-level apprenticeship in England for several years, going back to at least 2006/07.¹⁹

9. The Service argued strongly that apprenticeships made business sense for all kinds of employers, not just those within sectors traditional to apprenticeships, such as

10 C&AG's Report, para 2.24

11 Qq 23-27; C&AG's Report, paras 8, 2.24-25.

12 Committee of Public Accounts, Sixth Report of Session 2009-10, *Train to Gain: Developing the skills for the workforce*, HC 248, p 6

13 C&AG's Report, para 9

14 Q 37

15 Q 56, Q 58

16 C&AG's Report, para 2.30

17 Qq 33-34

18 Q 76

19 Q 85; C&AG's Report, para 2.9

manufacturing. However, smaller employers, and those which make use of self-employed contractors, might find it more difficult to engage with the Programme. While the Service told us that microbusinesses could use training associations to find an apprentice, it did not specify how easy it was for them to find out about and access such services. Equally, it did not yet have an answer as to how the Programme could be tailored to help improve skills in industries which make prominent use of self-employed contractors, for instance web design.²⁰

10. Individuals considering whether to become an apprentice require good quality information on the comparative benefits of a range of options open to them—not least whether to go to university or join an apprenticeship scheme. The Agency said that the forthcoming National Careers Service would provide much more information on training providers.²¹ However, the Department does not have research on the comparative benefits of completing an apprenticeship versus graduating from university.²² This could become a particular issue from 2013/14, when the Department will introduce learner loans for all apprentices at Advanced and Higher levels aged 24 and over. Under this policy, public funding will be replaced by a government-backed loan to individual apprentices, similar to student loans for tuition fees. The Service conceded it had work to do to inform would-be apprentices affected by these changes about the benefits of completing an apprenticeship.²³

20 Q 84

21 Q 60

22 Qq 78-79

23 Q 52

2 Improving Delivery

11. The Service expects most apprenticeships to last between one and four years, in 2010/11 around a fifth (19%) were completed within six months, with 3% lasting less than three months.²⁴ The Service conceded that apprenticeships had become shorter as they expanded into new areas of the economy, such as the service sector.²⁵ However, the Service shared our concern that apprenticeships lasting for such a short period may be of little benefit to either individuals or employers it said it was investigating 87 providers which have been delivering apprenticeships in under six months.²⁶

12. The Service drew our attention to positive indicators of the quality of apprenticeships, such as Ofsted inspections; around two-thirds (65%) of providers which currently offer apprenticeships were rated good or outstanding over the five years to 2010/11.²⁷ The Agency said it relies on awarding bodies, which design apprenticeship qualifications and assess candidates' performance, to verify that individuals are completing their apprenticeships to the required standards.²⁸ Where providers have a low percentage of apprentices who successfully complete (the Agency has set a minimum level of performance of 53%), the Agency may bar them from offering such training for 12 months or remove them entirely from the list of approved providers.²⁹

13. Witnesses assured us that apprentices are receiving sufficient off-the-job training.³⁰ The Government has introduced statutory standards governing the content of apprenticeships, including a requirement for apprentices to receive a minimum of 280 'guided learning hours' per year. In practice, the majority of these 280 hours can be made up by on-the-job learning, with the required minimum amount of off-the-job training being only 100 hours.³¹ A recent report published by the Department found that less than half (46%) of the apprentices surveyed said they received off-the-job training.³²

14. The NAO reported that it was 'unclear how the number of guided learning hours will be defined, monitored, and enforced in practice', and cited provider representatives as saying this measure was unlikely to be monitored or enforced.³³ The Service told us that, despite this being a statutory requirement, neither it nor the Agency would regulate providers to deliver it, as neither had the resources to do so. Instead, the Service is relying on apprentices to self-certify that they have received their entitlement.³⁴ This will be a

24 C&AG's Report, paras 2.17-18

25 Q 11

26 Q 13, Q 65

27 Q 18; C&AG's Report, para 2.16

28 Q 32

29 Q 31; C&AG's Report, para 3.15

30 Qq 14-17

31 Department for Business, Innovation and Skills, *Specification of Apprenticeship Standards for England*, para 13, <http://www.lsect.co.uk/documents/SASE-20-01-11.pdf>

32 Department for Business, Innovation and Skills, *Apprenticeship Pay Survey 2011*, March 2012, p 49

33 C&AG's Report, para 2.21

34 Q 63, Q 83

condition of receiving a completion certificate—that is, if apprentices say they have not received their statutory amount of training, they will not be allowed to successfully complete.³⁵

15. The Agency does not tell training providers which types of training they must deliver. In other words, providers are as free to offer training for an Intermediate retail apprenticeship as they are for an Advanced engineering apprenticeship. In practice, providers concentrate on delivering a small number of apprenticeship subjects in bulk; in 2010/11, 83% of new apprenticeships were in 15 (out of 118) subjects. Responding to concerns that providers were having too big an influence in deciding what types of apprenticeship are available, the Service said it was piloting employer ownership arrangements. Under these pilots employers can bid to receive funding for training themselves, unlike in the majority of cases, where the Agency directly funds training providers. However, the Service considers that years of cultural change would be required for employers to engage on a larger scale.³⁶

16. The Service and Agency lack reliable evidence on which to base the rates they use to fund apprenticeship training. Some elements of the funding calculations have become particularly dated, while in addition apprenticeship tariffs have been adjusted simply to reflect changes in their annual budgets, rather than any assessment of changes in the actual costs of delivery.³⁷ The Service and Agency stressed that they pay lower rates for apprenticeships which require less (and less expensive) training. Thus, for example, they spend less overall on apprenticeships in retail and business administration than those in engineering and manufacturing, despite there being three times the number of apprenticeship starts in the first two.³⁸ They also apply a number of further reductions to their funding tariffs. The Service and Agency only pay 50% of the full tariff for adult apprentices (with the employer expected to make up the remainder, in cash or in kind—although evidence reported by the NAO casts doubt on how many employers actually do so).³⁹ Further reductions, of 20% and 25% respectively, are made for apprentices of 25 and over, and for all adult apprentices at employers with over 1,000 staff.⁴⁰

17. The Service and Agency could not demonstrate they had a way of testing that their funding rates were robustly based on the actual costs of delivery. The Service was unable to say how much of its funding is spent by providers on the actual training of apprentices.⁴¹ The Agency said that it knew training providers were making a profit (based on the rationale that, otherwise, they would go out of business), but was unable to say how profitable different types of apprenticeship are to deliver.⁴²

35 C&AG's Report, para 2.21

36 Q 86; C&AG's Report, para 3.10

37 C&AG's Report, paras 14, 3.19

38 Q 37, Q 85

39 C&AG's Report, para 3.21

40 Q 87; C&AG's Report, para 3.18

41 Q 22

42 Qq 41-46

18. The precise responsibilities of the Service and Agency, and the relationship between them, have changed. The Service is a discrete unit within the Agency, but has its own chief executive, who, since August 2011, has been made Accounting Officer for Programme spending and delivery. On behalf of the Service, the Agency contracts with and pays providers, as part of the wider role it plays in funding providers under a range of skills and further education programmes.⁴³

19. The Agency thought there was ‘probably some duplication’ between the two organisations, while the Service thought the amount of duplication was ‘minute’. Both agreed that the two organisations combined together well.⁴⁴ The Department said that the Service and Agency shared a culture of co-operation, but conceded it was a fair question to ask why the Apprenticeship Programme required two separate delivery bodies. It told us it was clarifying the relationship between them, including between their respective chief executives, and was at the same time changing the status of the Agency so that it became ‘a more standard executive agency’. In addition, the Department is seeking to appoint interim replacements for the chief executives of the Service and Agency, who are both stepping down.⁴⁵

43 C&AG’s Report, Figure 1, para 3.4

44 Q 90

45 Q 94

Formal Minutes

Monday 23 April 2012

Members present:

Rt Hon Margaret Hodge, in the Chair

Mr Richard Bacon	Mr Austin Mitchell
Mr Stephen Barclay	Nick Smith
Jackie Doyle-Price	Ian Swales
Matthew Hancock	James Wharton
Fiona Mactaggart	

Draft Report (*Adult Apprenticeships*), proposed by the Chair, brought up and read.

Ordered, That the draft Report be read a second time, paragraph by paragraph.

Paragraphs 1 to 19 read and agreed to.

Summary agreed to.

Resolved, That the Report be the Eighty-fourth of the Committee to the House.

Ordered, That the Chair make the Report to the House.

Ordered, That embargoed copies of the Report be made available, in accordance with the provisions of Standing Order No. 134.

Written evidence was ordered to be reported to the House for printing with the Report.

[Adjourned till Wednesday 25 April at 3.00 pm]

Witnesses

Wednesday 7 March 2012

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Martin Donnelly, Permanent Secretary, Department for Business, Innovation and Skills, **Geoff Russell**, Chief Executive, Skills Funding Agency, and **Simon Waugh**, Chief Executive, National Apprenticeship Service

Ev 1

List of printed written evidence

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2	Michael Woodgate	Ev 22
3	National Apprenticeship Service	Ev 24
4	Association of Employment and Learning Providers	Ev 28
5	Skills Funding Agency	Ev 29

List of Reports from the Committee during the current Parliament

The reference number of the Government's response to each Report is printed in brackets after the HC printing number.

Session 2010–12

First Report	Support to incapacity benefits claimants through Pathways to Work	HC 404
Second Report	Delivering Multi-Role Tanker Aircraft Capability	HC 425
Third Report	Tackling inequalities in life expectancy in areas with the worst health and deprivation	HC 470
Fourth Report	Progress with VFM savings and lessons for cost reduction programmes	HC 440
Fifth Report	Increasing Passenger Rail Capacity	HC 471
Sixth Report	Cafcass's response to increased demand for its services	HC 439
Seventh Report	Funding the development of renewable energy technologies	HC 538
Eighth Report	Customer First Programme: Delivery of Student Finance	HC 424
Ninth Report	Financing PFI projects in the credit crisis and the Treasury's response	HC 553
Tenth Report	Managing the defence budget and estate	HC 503
Eleventh Report	Community Care Grant	HC 573
Twelfth Report	Central government's use of consultants and interims	HC 610
Thirteenth Report	Department for International Development's bilateral support to primary education	HC 594
Fourteenth Report	PFI in Housing and Hospitals	HC 631
Fifteenth Report	Educating the next generation of scientists	HC 632
Sixteenth Report	Ministry of Justice Financial Management	HC 574
Seventeenth Report	The Academies Programme	HC 552
Eighteenth Report	HM Revenue and Customs' 2009-10 Accounts	HC 502
Nineteenth Report	M25 Private Finance Contract	HC 651
Twentieth Report	Ofcom: the effectiveness of converged regulation	HC 688
Twenty-First Report	The youth justice system in England and Wales: reducing offending by young people	HC 721
Twenty-second Report	Excess Votes 2009-10	HC 801
Twenty-third Report	The Major Projects Report 2010	HC 687

Twenty-fourth Report	Delivering the Cancer Reform Strategy	HC 667
Twenty-fifth Report	Reducing errors in the benefit system	HC 668
Twenty-sixth Report	Management of NHS hospital productivity	HC 741
Twenty-seventh Report	HM Revenue and Customs: Managing civil tax investigations	HC 765
Twenty-eighth Report	Accountability for Public Money	HC 740
Twenty-ninth Report	The BBC's management of its Digital Media Initiative	HC 808
Thirtieth Report	Management of the Typhoon project	HC 860
Thirty-first Report	HM Treasury: The Asset Protection Scheme	HC 785
Thirty-second Report	Maintaining financial stability of UK banks: update on the support schemes	HC 973
Thirty-third Report	National Health Service Landscape Review	HC 764
Thirty-fourth Report	Immigration: the Points Based System – Work Routes	HC 913
Thirty-fifth Report	The procurement of consumables by National Health Service acute and Foundation Trusts	HC 875
Thirty-seventh Report	Departmental Business Planning	HC 650
Thirty-eighth Report	The impact of the 2007-08 changes to public service pensions	HC 833
Thirty-ninth Report	Department for Transport: The InterCity East Coast Passenger Rail Franchise	HC 1035
Fortieth Report	Information and Communications Technology in government	HC 1050
Forty-first Report	Office of Rail Regulation: Regulating Network Rail's efficiency	HC 1036
Forty-second Report	Getting value for money from the education of 16- to 18-year olds	HC 1116
Forty –third Report	The use of information to manage the defence logistics supply chain	HC 1202
Forty-fourth Report	Lessons from PFI and other projects	HC 1201
Forty-fifth Report	The National Programme for IT in the NHS: an update on the delivery of detailed care records	HC 1070
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Forty-eighth Report	Spending reduction in the Foreign and Commonwealth Office	HC 1284
Forty-ninth Report	The Efficiency and Reform Group's role in improving public sector value for money	HC 1352
Fiftieth Report	The failure of the FiReControl project	HC 1397

Fifty-first Report	Independent Parliamentary Standards Authority	HC 1426
Fifty-second Report	DfID Financial Management	HC 1398
Fifty-third Report	Managing high value capital equipment	HC 1469
Fifty-fourth Report	Protecting Consumers – The system for enforcing consumer law	HC 1468
Fifty-fifth Report	Formula funding of local public services	HC 1502
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Fifty-seventh Report	Oversight of user choice and provider competition in care markets	HC 1530
Fifty-eighth Report	HM Revenue and Customs: PAYE, tax credit debt and cost reduction	HC 1565
Fifty-ninth Report	The cost-effective delivery of an armoured vehicle capability	HC 1444
Sixtieth Report	Achievement of foundation trust status by NHS hospital trusts	HC 1566
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Sixty-second Report	Means Testing	HC 1627
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Seventieth Report	Oversight of special education for young people aged 16-25	HC 1636
Seventy-first Report	Reducing costs in the Department for Transport	HC 1760
Seventy-second Report	Services for people with neurological conditions	HC 1759
Seventy-third Report	The BBC's efficiency programme	HC 1658
Seventy-fourth Report	Preparations for the London 2012 Olympic and Paralympic Games	HC 1716
Seventy-fifth Report	Ministry of Justice Financial Management	HC 1778
Seventy-sixth Report	Department for Business, Innovation and Skills: reducing bureaucracy in further education in England	HC 1803
Seventy-seventh	Reorganising Central Government Bodies	HC 1802
Seventy-eighth Report	The Care Quality Commission: Regulating the quality and safety of health and adult social care	HC 1779

Seventy-ninth Report	Accountability for public money – progress report	HC 1503
Eightieth Report	Cost reduction in central government: summary of progress	HC 1845
Eighty-first Report	Equity Investment in privately financed projects	HC 1846
Eighty-second Report	Department for Education: accountability and oversight of education and children’s services	HC 1957

Oral evidence

Taken before the Committee of Public Accounts on Wednesday 7 March 2012

Members present:

Margaret Hodge (Chair)

Mr Richard Bacon
Jackie Doyle-Price
Matthew Hancock
Chris Heaton-Harris
Meg Hillier

Mr Stewart Jackson
Fiona Mactaggart
Austin Mitchell
Nick Smith
Ian Swales

Amyas Morse, Comptroller and Auditor General, **Gabrielle Cohen**, Assistant Auditor General, **Peter Gray**, Director, National Audit Office, and **Marius Gallaher**, Alternate Treasury Officer of Accounts, were in attendance.

REPORT BY THE COMPTROLLER AND AUDITOR GENERAL

Adult Apprenticeships (HC 1787)

Examination of Witnesses

Witnesses: **Martin Donnelly**, Permanent Secretary, Department for Business, Innovation and Skills, **Geoff Russell**, Chief Executive, Skills Funding Agency, and **Simon Waugh**, Chief Executive, National Apprenticeship Service, gave evidence.

Q1 Chair: Welcome again to Mr Donnelly and Mr Russell, and welcome to Mr Waugh—it is his first time with us. We have got a not bad report in front of us, so congratulations all round to all of you on the expansion of the programme and the success it has had over the years. Surprise, surprise, we are going to concentrate on value for money issues this afternoon. There are some issues in the report that we want to unpick, if we can. May I start by asking—I do not know who wants to answer this—what an apprenticeship is today?

Martin Donnelly: The most important thing about an apprenticeship is that it is a job. It is a job with learning. I do not know whether Simon wants to say a little more about the elements that make up an apprenticeship today.

Simon Waugh: Yes, Martin, thank you. That is a really important point: it is a real job. It is not a little bit of training or work experience. You are employed and you are paid a wage, but there has to be significant and additional learning through the apprenticeship as you acquire new skills. There are three simple components to that: the first is the NVQ, which is how competent I am at doing that job; the second is a technical certificate, which is the knowledge and can cover things such as equal pay and discrimination—there are a whole range of knowledge elements to the programme—and the third is something called functional skills, which require some 70% of all people doing an apprenticeship to develop their maths and English skills. Those are the three core components that make it up.

Q2 Chair: Both of you said that it is a job. According to the report, in 2007, 50% of apprenticeships were

people in work. I do not know what the figure is today. What is it?

Simon Waugh: It is 97%.

Chair: No, those who were in work before they started their apprenticeship.

Simon Waugh: Oh, I see. I don't have that number.

Q3 Chair: It was 50% in 2007 and the report says that the figure is likely to be higher today.

Simon Waugh: There is no doubt that a significant part of the programme in the past three or four years, and going back slightly longer to five years, has been the reintroduction of apprenticeships for those aged 25-plus and the upskilling and reskilling of people in the work force.

Q4 Chair: We will not hold you 100% to it, but can you make a guesstimate of what the figure is today? You must have a feel for it. Accepting that you might go back and say, "I got this completely wrong", have you got a guesstimate in your mind?

Simon Waugh: We believe it is around 70%.

Q5 Chair: Given the value for money, if 70% of people who go on apprenticeships are in work before they start, is it just a rebadging?

Martin Donnelly: Can I kick off on that, Chair, because it is an important point which concerns us from a value for money point of view? One answer is that it is not just rebadging or dead-weight, because we know from international figures that UK employers have traditionally not trained enough. If we do not intervene, levels of training and intermediate and advanced qualifications remain too low. That gives us a pretty clear signal that we need to develop

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our training offer and that is what we are aiming to do in apprenticeships.

Q6 Chair: I hear that, but I just have to say, that is why I asked you to define it. You all said that it was about having a job. When I think about apprenticeships in my constituency, for me it is primarily about giving an opportunity for young people to get a job and then train in it. That is my old-fashioned view of what it should be. If 70% already have a job, however, before they start—you say to me that this is not about rebadging, because all political parties and all politicians love apprenticeships—it is about training in work. Why is it that one in five, in effect, of apprenticeships lasted for less than six months and 3% lasted less than three months? What on earth sort of training can you get in that context that is of any value, in the traditional sense of training increasing qualifications, competences or knowledge?

Simon Waugh: You have clearly linked duration of apprenticeships to value for money. I would like to reassure the Committee that we pay significantly reduced rates for older apprentices who have been reskilling and who have been upskilled in the workplace. That is fundamentally what apprenticeship is about. It is about significantly increasing the skills of the people in this country.

Q7 Chair: Okay. Let's unpick the 19%—that might help us. How many of that 19% who were in an apprenticeship for less than six months were already in work?

Simon Waugh: A significant number. I think the 70% is—

Q8 Chair: Higher?

Simon Waugh: No—

Q9 Chair: My guess would be higher, but I may be wrong, which is why I ask the question. Am I wrong? I don't know whether people behind you can help.

Simon Waugh: We think it is the same.

Martin Donnelly: We think you are probably right, because most of these would be people who have already been in jobs for some time and may have, for example, parts of the qualification already in place, which is one reason why the training may be shorter.

Q10 Chair: Let me ask another question that might help us. How many of the 19% were doing advanced apprenticeships—really upskilling to the level that the French, Germans and others do it?

Martin Donnelly: That will be a relatively small number. Although they have increased a lot—

Chair: My guess would be none.

Simon Waugh: I agree—it would be very low.

Q11 Chair: May I ask a third question? Primarily, what sort of sectors would they be in, as you define them?

Simon Waugh: There is no doubt that duration has shortened as we have moved apprenticeships into other areas of the economy, such as the service sector, which is a large part of it.

Q12 Chair: What would they be doing? Waitressing?

Simon Waugh: It could be retail, customer service, which is a generic framework across many industry sectors, hospitality or business administration.

Q13 Chair: I just think that, in a context where there is complete unanimity about the importance of apprenticeships, we are stretching the definition, particularly when you look at less than six months. You might tell me how many of those apprentices were over 25. Are they mainly over 25?

Simon Waugh: No—actually, it is pretty much the same across all. The first thing I would say is that we completely share your concern about short duration and, with our partners in the Skills Funding Agency, we have been investigating all apprenticeships and providers that have been delivering for less than six months.

I don't think it is quite as simple as, they are all wrong. This is an employer-led programme and a number of employers like to hothouse positively—in other words, to provide really focused training for a period. The MOD is a good example. It has written to us recently to say that some soldiers are on base 24/7—it is not even that they are there for seven or eight hours a day, five days a week—so it is concerned about the extension. We have decided—or the Minister has—that all 16 to 18-year-olds will be 12 months and over. That is an absolute fact. When the duration is shorter than 12 months, we proportionately pay the provider based on the percentage of the length.

There is an issue about the brand and whether these are real apprenticeships, but there is far less of an issue around value for money. With older apprentices, who do apprenticeships in a short time, we are effectively paying the 35p in the pound that we pay for a 16 to 18-year-old.

Q14 Chair: We have all had a letter from the academics, Alison Fuller and Lorna Unwin, in Southampton—presumably, you have seen it. I think we were trying to get them to give evidence, but they couldn't. You probably know their work well. They have expressed concerns in that letter. You have defined that you have to have an NVQ competence level, some knowledge and some functional skills. They say—I guess it will apply to the one in five who do under six months—that the knowledge element will not involve participation in a recognised, off-the-job course? Is that true, because that is a bit scary? Do you think that that is probably widespread?

Simon Waugh: No, absolutely not. The framework and the components—

Q15 Chair: For most apprentices, the knowledge element—that is your definition—will not involve participation in a recognised off-the-job course.

Simon Waugh: I don't agree with that.

Q16 Chair: Even in the under six months one?

Simon Waugh: No. One of the things we have significantly improved in the last 12 months is standards around quality of apprenticeships, including

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the introduction less than 12 months ago of something called the specification of apprenticeships standards for England—SASE—which says that you have to have minimum hours of learning on the technical certificate and as part of the programme.

Q17 Chair: Off site?

Simon Waugh: Off site—we had lots of debates with Lord Layard in the development of this—and away from the work station for a minimum of 280 hours. If you add up all of the frameworks, they come to well over double that amount of time. This is not the rebadging of some vocational training; these are jobs with people spending significant amounts of time away from the job they are paid to do, to learn aspects of their job knowledge that they would never get. I have run some very large companies and big apprenticeship programmes, and this is anything but a rebadge. Those in big companies such as American Express, Lloyds Bank, British Gas, the AA—I ran parts of these businesses—are very different from anything that we have done internally ourselves, and they are work-related.

Q18 Chair: I will just ask a final question and then go to Matt. During apprenticeship week, which we had recently, I went to visit some apprentices in my own constituency in a printing business, which is a really successful business that has completely repositioned itself and is doing really well. I talked to the apprentices and one of them had been an apprentice for two months and had never had any training. My guess—although I have not got a clue: the training provider got very nervous when I asked that question—is that the business itself was not putting any money in and that it probably needed those young people anyway to grow the business. The training provider was getting quite a nice amount of the taxpayer's money and the young people had not been off site.

Simon Waugh: It is very hard for me to comment on one particular apprentice out of the 457,000 apprenticeships that have started. The NAO Report—it makes some very strong recommendations, which we have completely accepted, and we intend to do a number of different things in the future—recognises this point. All the evidence, if you look at it, is that Ofsted, which goes to training providers that deliver apprenticeship training, has rated them very highly and its comments are generally very positive about apprenticeships—not just about the training that is being delivered, but about the employer support, which it rated as high and considerable in terms of having mentors and giving apprentices support.

Over 90% of businesses say that apprenticeships and vocational skills are driving business performance. We have had the Warwick report, which was developed by a number of small, medium and large companies in this country; about 30 of them asked Warwick university to do it. It has proven that apprenticeships drive additional productivity and efficiency above and beyond any training programmes that they run, and that is because they are trained properly. If I said to you that I think all the 457,000 people who started

last year have had perfect experiences and have all been trained brilliantly well, quite clearly you would not believe me, but across the programme—

Q19 Chair: This is my final question and then I will go to Matt. What the Report says and what I would like to know about—I cannot quite understand why you do not do it, because we all care about the success of this programme—is that you do not actually know how much money gets lost through the system and how much actually gets paid on the training. We do not know or the Report cannot tell us how much BIS takes, how much the Agency takes, how much you take, how much the providers take—that was my local experience—and how much goes to things such as the sector skills councils. There are a whole load of intermediaries in the system that will all slice off a little bit of the money, and we cannot tell how much in the end is actually for training for the individuals. I cannot quite understand—this might be a question for Martin Donnelly—why you have not done the work that would enable the NAO to report and this value-for-money Committee to be satisfied that that great investment is adding value. Why can't we track where that money goes and how much actually ends up as training for the individual?

Martin Donnelly: You are right that there is a degree of complexity in the plumbing, which the chart on page 12 draws out quite well. The important thing for us is that there is clarity on the way the funding for 16 to 18-year-olds moves from my Department and DFE through to Simon and the NAS, which has end-to-end responsibility for delivery. We know the rates that we pay for the different sorts of apprenticeship. As you say, those rates are negotiated with the different sector skills councils and other providers.

Q20 Chair: You cannot track it. You cannot track the seepage to all those intermediaries before you get to the interview, can you? You cannot track it. I do not know on which page of the NAO report this is—perhaps you could help us—but nobody can say, “Is this value?” because you cannot track all that expenditure.

Simon Waugh: If I may say so, I thought the NAO report could not have been clearer on the extraordinary value for money.

Q21 Chair: No, just answer the question. They say that you do not know whether it is the added value of apprenticeships; they say that earnings go up, I accept that, although there is an argument on how much earnings go up by. I am interested that the Government put in one point whatever billion pounds. Why can't we track how much of that is actually spent on training, so that, when I go to celebrate apprenticeships in my constituency, which is what I was trying to do, I do not come away thinking, “Crumbs, who got that money?”

Simon Waugh: Geoff may want to comment, but £1.54 billion goes directly to training providers to deliver training to those people who have been identified.

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Q22 Chair: That is not the question. The question is: how much goes on the training for the individuals? How much is actually spent on providing training for the individuals? In this instance, the young chap said to me, “I have been an apprentice for two months and I have never been off site.” Maybe I landed on a very odd one.

Matthew Hancock: Maybe I could ask a question.

Chair: Let me get an answer, Matt, and then I will come to you, I promise.

Simon Waugh: Of the 100%, I do not know how much providers take out of the money provided to them for training in overheads, and so on. You mentioned sector skills councils, which are completely separate from the £1.4 billion. We have a very clear understanding that the various agencies and the people in the value chain who deliver apprenticeships have their own separate budgets. The admin budget for NAS is completely separate. So the £1.4 billion goes out to colleges and training providers. Whether they spend 100% of that money on delivery, I think is incredibly—I cannot argue or defend one apprentice out of the 600,000 or so we have in training.

Chair: I do not know who chose that as a site for me to visit, but it just so happened that that is where I went.

Q23 Matthew Hancock: I want to come back on two points that have been raised. First, figure 8 on page 26 states that the NAO estimate for advanced apprenticeships is that there is a £21 return to public spending for each £1 of expenditure; and on intermediate apprenticeships the ratio is 16:1. Those figures are very strong, but they are significantly below the Department’s estimate. Could you explain that distinction?

Martin Donnelly: Can I kick off on that? We have taken a view, based on some academic evidence, that the benefit of an apprenticeship goes not only to the employee, but to the company, which benefits from the increased productivity that comes through this process. The NAO understands and accepts that level of reasoning. There is a legitimate uncertainty on how large that benefit is.

Q24 Matthew Hancock: So apprentices increase the productivity of the businesses into which they go?

Martin Donnelly: Because of the skills they acquire during the apprenticeship, yes. In future they will make the business more productive, which is, of course, one reason why employers want apprenticeships.

Q25 Matthew Hancock: Is that because of external training? It is extraordinary that the training of the most junior people will increase the productivity of the company to mean that the money that you are spending in terms of advanced apprenticeships will go a bit further and more than twice as far in terms of intermediate apprenticeships as it would on the narrower definition—if that is what the distinction is.

Martin Donnelly: It depends on how much value you attach to that wider training making the individual

more productive. We are doing some further work with, I believe, Warwick university and a couple of other academic bodies to try to give ourselves more evidence of that. It is something that we will of course publish when we get it. The anecdotal evidence from employers that these training programmes, including at intermediate level, do increase their profitably going forward is strong.

Q26 Matthew Hancock: Does the NAO buy that distinction?

Amyas Morse: We are not suggesting that the Department is doing anything misleading here. When we did our Report—you will see this is in paragraph 2.25—we did not think that the evidence was strong enough to put a 100% mark-up on the wage costs. We just thought that that was too aggressive based on not very much evidence. Therefore, we thought a 25% mark-up was more reasonable. It is possible that more and better evidence can emerge in future and a higher level of estimation—

Q27 Chair: And you have a proviso even around that. Peter, you said that even on that you do not know.

Peter Gray: Yes. As Amyas stated, the Department had assumed that the benefits beyond the individual were 100%. We looked at the evidence and the Department drew on previous academic research, which had been done on quite different programmes in the ’80s, and we discussed those with the academic concerned. As a result of those discussions, we decided that 100% would not be applicable here. We do not doubt that there are what are termed spill-over effects, but we thought that 25% was probably a more reasonable estimate. That is our judgment. There is no right answer to this. There are spill-over effects.

Q28 Matthew Hancock: There is always uncertainty around this type of figure anyway as it is an estimate. Do you accept the NAO’s position on that? Is that a reasonable explanation of the difference?

Martin Donnelly: We absolutely agree that the best way to take this forward is to do some more research. We have commissioned that and we will share it when we have it.

Q29 Matthew Hancock: I want to come back to this point about the shorter apprenticeships, because, during apprenticeship week, I also visited an apprenticeship scheme at the British Racing School in Newmarket. They put me on a racehorse, and I took part in an apprenticeship, albeit an unusual one [*Interruption.*] I can mention horses whenever I like—I represent Newmarket. I want to push you on the flexibility point. In some sense, it was an unusual apprenticeship. On the other hand, however, all the training is on-site. They do not go off-site at all, and it is intensive. They have to get up at 6 am and work until 8 pm, and all of that means that the apprenticeship and the time before they go into the workplace are shorter. Is the system going to be flexible enough to ensure that, where there is pre-work training to get people up to a standard, that can still be within the apprenticeship programme and to ensure

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that you do not, by trying to get more rigid rules, squeeze out some different and more unusual ways of providing apprenticeships?

Martin Donnelly: This balance between flexibility in different sectors and ensuring overall quality and trying to raise the bar is absolutely fundamental. You are right. We are—Simon may want to comment on this—getting this broadly right. It is important that we keep an eye on it. It is important that in areas such as English and Maths, where we are pushing for standards to be applied across all apprenticeships, that we do get that delivery, so that people have more transferrable skills.

Simon Waugh: I am not doing very well with the apprenticeship for the Chair. I am very aware of the British Racing School. You have picked what I would describe as a unique or very unusual circumstance.

Q30 Matthew Hancock: They will be delighted to hear that they are unique.

Simon Waugh: We have had long conversations about their model of delivery. They do not like the employment piece and paying a wage. Rather like the apprenticeships in sporting excellence—so Olympic sports such as swimming—they do not really have employer bodies but people want to spend all their lives training. We have had long-standing debates with the British Racing School. Out of the 4.5 million employers in the country that you could have picked, that one is clearly in my mind. We are trying to be flexible, because this is an employer-led, demand-led programme—

Matthew Hancock: Exactly.

Simon Waugh: But we have got to apply standards around duration, about what a real apprenticeship is and how it looks. If we do not, we will discredit the programme as a whole.

On the question about why I do not care—I was a businessman, I retired five years ago and I came out of retirement to do this, because I love apprenticeships. I saw them work in the workplace, I introduced them back into British Gas personally and I had 25,000 people working for me at Centrica. I am here because I believe in this and I believe in what it does for business, for skills and for people's lives. We have got to find flexibility to make it work for employers, but it cannot be so flexible that we discredit the programme. The British Racing School is one that we are still trying to find a solution to.

Q31 Matthew Hancock: I have other apprenticeship employers in my constituency, for whom the more structured approach that you have just talked about is important. For them, appropriately ensuring that the training happens and that it is of high quality is very important. I get the impression that that is an area that we want to push more on, and that it has been lacking. What are you doing to make sure that people can have confidence in the training that is provided as part of apprenticeships?

Martin Donnelly: It is extremely important. Can I bring in Geoff, in terms of managing the contracts for providers, to talk about how we aim to check that that quality of provision is taking place?

Geoff Russell: Simon and his people set the criteria, the definition and the quality standards. What we do for the National Apprenticeship Service is basically to procure and manage providers to deliver to that standard. The key driver is that providers have to attain a minimum level of achievement in terms of completion of frameworks or they do not get our money.

Q32 Matthew Hancock: But what about the quality within the completion of that framework, to ensure that the training is good enough? We have all been on training courses where we have not learned very much.

Geoff Russell: In order to get a complete framework you have to meet the standards of the awarding organisation, which is the body that examines and ensures that the person has met that standard. It is really the awarding organisations that test against the standards of a framework that is devised by framework developers. What we do is to ask, "Did the minimum requirement of your students pass the awarding organisation's tests?" If they did not, we do not give them contracts any more or we take money away from them. They respond to money. It is a powerful way of ensuring that they meet the standards. We put that across our entire business and in the past six or seven years it has driven up the quality of apprenticeships significantly. Simon will know in more detail what the figures are.

Simon Waugh: It is no different from doing GCSEs or A-levels, in the sense that you have to do an exam in the academic world, and as part of the NVQ you have to prove your competence to do the job at the highest standard that you can do. You and your employer pick modules as part of the framework that you will complete. At a very basic level, for someone doing business administration, one of the modules may be around arranging a large meeting. The components sitting around that will be health and safety considerations, putting out an agenda and having the capability to produce good minutes. There are many modules to this, which are then evaluated. The apprentice has to produce a portfolio of their work over the 12 to 18-month period—if it is six months, we are going to sort that. The apprentice has to prove to an assessor and do exams as part of the technical certificate. I have interviewed—well, spoken to—hundreds of apprentices in the last three years of doing this, and they assure me and tell that it is very hard, because they get bounced back. They produce part of the work and it is, "That's not good enough. There isn't enough content. Where's your proof?" and with employers, it is about embedding those skills.

That is the other thing about wanting apprenticeships to last longer, because we do not want the one-minute wonder doing the training course, working very well, and then, over time, seeing those skills and that productivity drift away. That is why we have made—or the Minister has—it a minimum of 12 months for 16 to 18. Even if it takes nine months for someone who can rapidly do it, there are still three or four months of sustained performance. I am not going back to the NAO debate and the value for money. I think

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that can be debated, but I again have seen personally and am utterly convinced that good quality apprenticeships are the definitive way of training and skilling your people.

When we first started doing that, say, in some of our call centres in the AA, we took 5% of our call centre staff. We had very high turnover rates and our turnover for that group fell dramatically, but we also learnt something, because they were so much better at the job having completed it. We took that best practice and that 5%—it may have been a cheap way of doing it, incidentally, by taking the benefits of training 5%—and started spreading that best practice across the other 95%. So, there is a halo effect of getting a small number of your people—at any level, junior or middle management—to do things brilliantly well in a structured way with a nationally recognised qualification, and then seeing that uplift the organisation as a whole.

Q33 Austin Mitchell: I agree with that, but my question is different. We have always been bad at training compared with Germany or other countries. That is shown in figure 4, “Incidence of apprenticeships (all ages) in the workforce”, but I was surprised at the difficulty in getting employers to come forward to take apprentices on. Figure 2.6, on page 18, says that the proportion of employers with apprentices in England was only 5% in 2010, whereas in Australia it was 30% and in Germany, 24%. Why is that? In Grimsby, the *Grimsby Evening Telegraph* has had a campaign to get people to take apprentices on. The apprenticeship service has been very good at going round employers and pushing them to take apprentices on, but the take-up is still lower than you would want. Why?

Simon Waugh: There are a lot of reasons. Partly, it is cultural; I think that vocational skills and particularly engineering and manufacturing have always been recognised and valued more highly in countries like Germany than in the UK. Another thing that is quite interesting—there are a few myths around, if I may say so—is that 22% of people in Germany go to university, while here, it is 35%. So, for that 13% of the population, a lot of them do apprenticeships, which make up that additional number.

I also think that we have not done enough to convince people. You have to start with employers. We are going to have millions of people that may want to do an apprenticeship, particularly with youth unemployment where it is now, but if you do not get employers who either want to offer an apprenticeship to a first timer—and also, may I just address the issue of older apprentices who are in the workplace? Some of the biggest skills issues in this country, which is a legacy lasting years and years, are in the existing work force. It is not just 16 to 18-year-olds. What about the 35-year-old who was let down by the system, over the last 15 to 20 years of their life? They came out of school with very low literacy, numeracy and basic skills, and they are condemned to a life of very low-skilled, low-paid work. Going into the work force that we have—I know a lot of people do not like that—is fixing that problem, which is absolutely inherent in

our existing work force. So, we have a very different culture, system and numbers of people, but six out of our 10 top frameworks in this country are exactly the same as six out of the 10 top ones in Germany, including retail, hospitality, business and customer service.

Q34 Austin Mitchell: I will ask you about that in a minute. I am glad to hear what you are saying, but is it because employers regard it is a cost, rather than an investment?

Simon Waugh: Yes, they do. It is a big commitment. Part of the argument over why there are so few is, “We already train our people, and we don’t necessarily want them to have great literacy and numeracy. If I ask them to do a very basic job, what difference does it make to me if they can’t go home and help their children with homework or can’t go out and buy a bus ticket properly? As an employer, I might have a social conscience about it, but that is not my problem.”

Employers see an apprenticeship as the blue riband. It is the belt and braces of training, and a real commitment for them. They need to let them go off—assuming they’re getting the training, Chair—one day a week to a college or, more often than not, a provider. They have to have assessors coming into the workplace; they have to allow at the minimum their apprenticeships to go off for 280 hours to college and do their homework. They see it as a very onerous and difficult thing to do, but the ones who do it see the light.

Austin Mitchell: Good.

Mr Bacon: I feel like cheering after that, I really do.

Q35 Austin Mitchell: A further point was raised about training in retail. Many trade unionists who talk to me, and certainly my brother who was an apprentice lathe operative, regard these as make-work schemes which don’t lead to a job and really aren’t much use. The bulk of the short apprenticeships, which I should have thought are too short to be valuable, are in the retail sector. Why are they valuable there?

Simon Waugh: That is not the TUC view. We work incredibly closely with employer bodies. Frances O’Grady, the deputy director general of the TUC, talks to us every week.

Q36 Austin Mitchell: Yes, but these are people who have gone through a traditional apprenticeship; I’m sorry, but you can’t do that in retail.

Simon Waugh: I think you can. People don’t understand the complexity of doing a retail apprenticeship around logistics, time management and customer services, which is an important part of it. People immediately think, “Well, pay them the lowest amount of money. They will stack a few shelves. Where is the content?” There is enormous content in retail apprenticeships. Of course, there isn’t the content compared with an apprenticeship in advanced manufacturing and engineering. That is why we pay £3,000 or £4,000 for a retail apprentice and £27,000 for an advanced worker. The level of skill and content

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is built into the rates we pay, which drive value for money.

Chair: Austin, I am moving on. Richard, then Ian and Stewart.

Q37 Mr Bacon: Mr Waugh, you are very persuasive about the importance of apprenticeships. I am very glad that you are where you are, doing what you are doing after many years of having done other things, because we need more people like you in the public sector. Thank you for that.

The Chair referred earlier to a letter from the University of Southampton. It is a short paper. They probably could have done an apprenticeship course on how to write it more pithily, but I waded my way through it. When I finally cut to the quick in the last sentence, Professor Alison Fuller and her colleagues asked whether evidence could be provided to show that “public money is being spent on quality apprenticeship programmes providing adults with substantial new training or retraining for skilled employment, as opposed to some basic on-the-job training and the accreditation of existing skills.”

You were very clear that this isn’t about rebadging. You mentioned the minimum of 280 hours, although you said that it was often more than that. Can you provide the Committee with a short note setting out some of that in more detail, and say why it isn’t rebadging—in other words, an answer to the question?

Simon Waugh: Absolutely.

Mr Bacon: That would be very helpful.

Simon Waugh: I made the point that, under just pure work-based learning, you do not have the technical certificate, which is critical to it. The level of competence training in my experience is at least double what an employer would do in their own right without an apprenticeship. The additionality is absolutely unequivocal.

The other thing about good quality apprenticeships is that, while the world in general has become fixated by 25-plus apprenticeships, this is only about adults. I thought that that was a shame, because a big success story in the portfolio is the 16-to-18 growth, which we are not here to talk about. However, that has grown by nearly 35% in the past two years, in the most difficult economic environment that some of us—I will not judge you by age—can remember. That great success story is not even covered in this. We are only looking at adults.

May I also point out that the number of starts we have had in, say, retail business and administration is three times the number that we have had in engineering, manufacturing and construction? That may alarm you, but actually we are only spending 70% of the money on those programmes, versus engineering and manufacturing. Engineering, manufacturing and construction account for by far and away the most money we spend, compared with any other framework; but it is about a third of the starts because of the quality of the training.

Q38 Mr Bacon: And the cost of each place?

Simon Waugh: Yes. And construction and engineering have fewer people in the workplace today than they had two years ago.

Q39 Mr Bacon: Perhaps in your note you could add something about why there is a significant amount of additionality.

Simon Waugh: I would be very happy to.

Q40 Mr Bacon: I want to come on to the costs and to question Mr Donnelly and perhaps Mr Russell. One of the things that Mr Waugh said earlier was that he could not necessarily look inside an employer or a training provider and see what their overheads were. One of the things that is of concern in this report is how little a grip, let alone an up-to-date grip, you appear to have on the costs facing training providers. I am referring to paragraph 3.19 which talks about the tariff values and how complex they are. Some of them are very dated, using information dating back to 2001, and the supporting evidence is no longer available. It adds that tariffs have been adjusted in some cases simply to reflect the change in annual budgets rather than any assessment of delivery costs. It goes on to say: “Without robust information on costs, the Agency and the Service may unknowingly subsidise some apprenticeship frameworks more than others, potentially distorting providers’ decisions on which frameworks to offer.” Why don’t you know more about providers’ costs?

Martin Donnelly: There is a balance to be struck between a very bureaucratic level of intervention into every one of the extremely different sorts of provision, and making sure, as you rightly point out, that we provide value for money. I am satisfied that the systems we have in place do that effectively and I should like to ask Geoff to say a bit more about how we do that in practice.

Geoff Russell: I suppose there are two levels to this. At a very high level, as Simon has already said, we take a pretty robust view about what we pay for versus what is being delivered. So, as Simon has said, a number of times, we pay significantly less for frameworks that have less content or less training provision. On the specific point that the NAO raised about the process that is used effectively to determine what we will fund, it is true that some of those are quite outdated but they are mostly things that are intentionally outdated, in that we did not update the costs. So we are paying against costs that are quite old right now. I am pretty satisfied that that just drives more efficiency. Having said that—

Q41 Mr Bacon: You all sound pretty satisfied. Mr Donnelly said he was satisfied the systems were all fine, which is a classic accounting officer answer. You sound satisfied as well. You just said so. What I am not clear about is this: do you know whether a provider is making a surplus or whether a particular programme is costing it money?

Geoff Russell: Are you asking me if I know whether a provider makes a profit?

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Q42 Mr Bacon: Yes. If you don't have a clear understanding of the provider's cost, how do you know how to set the tariff?

Geoff Russell: We do have an understanding of the cost components, but the NAO is correct that some of those costs are a bit outdated. But we definitely have a cost model that takes into account the various components of the cost.

Q43 Mr Bacon: But it is true, is it not, that you don't know the extent to which providers may be earning surpluses or incurring losses on some types of apprenticeships?

Geoff Russell: Virtually every one of our providers overall is making a profit.

Q44 Mr Bacon: Do you know how much profit?

Geoff Russell: Not on an individual basis.

Q45 Mr Bacon: Then how do you know that they are all making a profit?

Geoff Russell: Because they would not stay in business very long if they did not.

Q46 Mr Bacon: They might. They might be subsidising it from somewhere else in the business.

Geoff Russell: Even colleges are businesses. Very few of them would continue on a particular line if they were not making money.

Q47 Matthew Hancock: It isn't the idea of profit, it is the question of whether the tenders are competitive—that is what really matters—and making sure the profits are appropriate enough to keep them in the business, as you say, but not too much. So how many providers are there in the market to make sure that the market is competitive and, crucially, how many drop out over a given time period?

Geoff Russell: We have a total provider base to the agency, delivering all sorts of either apprenticeships or adult skills, of about 3,300, including 300-odd colleges. They are hugely competitive and generally they only drop out when we kick them out.

Q48 Matthew Hancock: How often does that happen?

Geoff Russell: Two years ago we decided, given that 500 of those providers were attracting 3% of our funding, that was not a particularly efficient use of public money, because too much would go into overheads and not enough into teaching and learning. We therefore set the minimum level at which we would be willing to contract with providers at £500,000. That forced the consolidation of the smaller ones to make them more efficient and put more money into teaching and learning.

The problem is actually that there are lots of people who want to come into the business. I do not believe that there are a significant number of providers that

are not making sufficient money. I do take the point though, and one of the things that my staff monitor, because we get the accounts of all these things, is whether they are making too much money.

Chair: On this point we have Amyas, Fiona, then I want to pop in a question, then I am going to Ian.

Q49 Amyas Morse: I just want to ask—we do not make very many recommendations in this report and as the Chair has rightly said, it is generally positive. We do think that it would be desirable, as you simplify the tariff mechanism, to get and maintain more current views on what the cost structure is likely to be. Do you accept that recommendation?

Geoff Russell: Actually, we are revisiting the entire pricing structure for not only apprentices, but all adult skills, to simplify it. Also, in effect, we are piloting schemes to market-test some of this, because from my point of view I employ a lot of people who sit there and try to figure out costs. My preference would be, if we could, to tender what people would be willing to pay for it. The risk when you do that is that it is a race to the bottom on quality. We are, however, going to pilot things like that, because, if we can take advantage of the fact that this is a very marketised public service, which is very competitive, to try to make that competition work for us, I think that that would allay your concerns.

Q50 Amyas Morse: If you can leapfrog the question, that is fine, but in the meantime I am simply saying that we are aware and we reflect the fact that you are looking at the tariff system. We are simply making the modest proposal that it should have an updated understanding of cost to go with it, if that is all right.

Martin Donnelly: Can I add that we do accept that? The direction of travel is absolutely right. We want to get further up the curve without losing the benefits of simplicity and not adding bureaucracy and putting people out.

Q51 Fiona Mactaggart: Isn't it essential that you have better information if you are planning in future, as I understand it, to ask the worker and the employer to pay for level 3 apprenticeships, so that they are giving cash contributions, which employers do not do at the moment? Will it not be important that you know the costs at that point? How will the timing work?

Martin Donnelly: The level 3 FE loans will come in from 2013–14 and are obviously likely to be focused on the advanced apprenticeship end. It is fair to say—Geoff will correct me on this if I am wrong—that we have more detailed knowledge of those because they are more complex and there is a bigger training ask involved.

Geoff Russell: That is true, but also you are quite right, because, in a sense, that is marketising the issue. If people do not like what they are getting for what they are paying, that framework will not be delivered and either the costs will come down or that provider will go out of business. I am pretty comfortable that

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that is a good way to go. It is just that it applies only to people who are 23 or over taking a level 3. There is a huge chunk below that and that is where—I agree with Amyas—we need to ensure that we are as accurate as we can be to get the best value for money.

Q52 Fiona Mactaggart: I am slightly wondering what studies you have done about it, because I, like everybody else, visited various apprenticeship schemes in my constituency during National Apprenticeship Week. I was very impressed by what I saw, which was at various different levels. One of them was the scheme run by O2 in my constituency, which is a level 3 apprenticeship. Talking to the young adults on that apprenticeship, it was clear to me that they had chosen it because they did not want the costs of university and they thought that getting into work, getting paid and not saddling themselves with loans was their pick, if you like. I am just wondering how clear we are—I am not questioning the policy; I am questioning the value-for-money issues here—about the value-for-money impacts of this change. I do not think that O2 will find its contribution hard, but a number of employers that are providing higher-level apprenticeships will be surprised by the fact that they are expected to pay 50%, as will a number of the students. I am just wondering how carefully you are aware of the difference that that will make in the take-up.

Chair: I think that is a question for Mr Waugh.

Simon Waugh: This is directed at the learner, and the reality is that we have got a lot of work to do in the next 12 to 18 months really to be as explicit as we can with the learner about the wage premium and the benefits. In the same way, I do not think that too many people who go to university would think that there is a significant wage premium to being a graduate, but there is, so we need to sell the benefits.

I agree that there are many things we have still got to get right and work on in the future, but one of the reasons why we have had so much success is that we have been really driven with employers, which is the point that Austin Mitchell made earlier, about the business benefits. We have therefore got to convince the learner that if they do a level 3—and this is at level 3—and therefore they are doing an advanced or higher apprenticeship, the value to them is that the loan will be paid out of the additional profits they will make by not doing it, so they are significantly better off.

Q53 Chair: Are you confident you can do that selling job?

Simon Waugh: I was very confident we could do it with employers against a very negative background. You made the point about the renaissance of apprenticeships. Going back just over 10 years, 60,000 people started an apprenticeship in this country. If you want to talk about quality, 25% completed just before the millennium, which means that 15,000 people completed. The completion rate

last year was 76%, however, so we have done a great job.¹

Q54 Chair: But are you confident you can persuade young people and employers to do the level 3 with the new constraints on you?

Simon Waugh: We have a lot of work to do to get the messaging right to convince people. That is what we are doing over the next 12 to 18 months, and we have that 18 months before we introduce this. It is a policy that is very clear in terms of actually improving value for money and getting people to make a greater contribution individually towards this, and we will work to make it work.

Q55 Chair: A final question on providers. A4e is a provider, which provides £8.6 million—

Mr Bacon: No, that was her salary—her dividend. [Laughter.] It was; it was exactly £8.6 million.

Chair: You are absolutely right; I had not twigged that. A4e was found by Ofsted to be only satisfactory, which is not very good in Ofsted-speak. Its success rate in 2009–10 was 50.1% for advanced and 59.3% for intermediate. Are you looking at its performance, and have you audited its work?

Geoff Russell: We look at the performance of all our providers.

Chair: Have you looked at A4e's performance, and have you audited its work?

Geoff Russell: We look at the performance of all our providers, including A4e—

Chair: Have you looked at A4e's performance, and have you audited its work?

Geoff Russell: And we are just about to finish an audit of its existing offender learning contract, and it is without exception.

Chair: It is what?

Geoff Russell: It is without exception. There were no exceptions in the audit.

Chair: Right.

Q56 Ian Swales: I would like to come back to something Mr Waugh was talking about around manufacturing and engineering. I did not dare get on a horse in apprenticeship week, but I was let loose on some real live machine tools.

Fiona Mactaggart: You had live machine tools?

Ian Swales: I had real machine tools. Imagine my disappointment on seeing the list in the letter from Southampton that engineering figures only 8th on the list of apprenticeship areas. In that list of 13 areas, I cannot see any that you would describe as manufacturing. As a Tees Valley MP I absolutely welcome what has been done on the Tees Valley

¹ *Note by witness:* The figure cited by Mr Waugh of 25% of Apprentices completing just before the Millennium was not comparable to the latter figure of 76% completions in 2010–11. This is due to changes in the methodology for calculating success rates. The earliest comparable figures are in 2004–05 where the total Apprenticeship success rate was 37%. However, when considering adult Apprenticeships (19+ years) this was 34% in 2004–05 and 78% in 2010–11. Data Source: http://www.thedataservice.org.uk/NR/rdonlyres/5A82CEB4-E76C-4CB4-88CB-BAE512730FFB/0/January2012_SupplementaryApprenticeshipSuccessRates.xls

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apprenticeship programme, and I welcome the work that is being done to keep that going. However, we hear lots of horror stories about manufacturing companies that are unable to meet orders. We hear a lot about skills shortages. The Government want to revive manufacturing, and you add green technology on top of that. There is a huge crisis, and I am wondering what more you can do to steer this programme to help to fill that gap and get more employers and young people involved, and so on. I do not think we are anywhere near where we need to be in those key areas. That is an opinion, but I would be interested to know whether you share it.

Simon Waugh: We absolutely share your ambition for manufacturing and engineering. I think I have said two or three times already this afternoon that this is an employer-led, demand-led programme. We cannot, of course, insist that any employer or any sector takes this any more seriously than others, but there are a number of priority sectors. At the very top of the eight priority sectors that we have, driven out of the BIS growth review—BIS set the overall strategy, and we are the delivery agent—is advanced manufacturing and engineering.

We always prioritise those sectors. On funding, to my knowledge, unless I am about to be corrected, we have not once turned round to anybody in the manufacturing and engineering sector and said either, “We haven’t got the money,” or, “We don’t agree with the framework.” We are doing everything we can across these priority sectors and others to say that skills are vital to this country’s economy. They have to then decide, and I would say that we have significant numbers of people as a proportion of the work force. Obviously, the number of people employed in manufacturing and engineering has declined in the past two or three years, but the proportion is still very high up, although they may not have the numbers that work in retail because 2 million or 3 million people work in the retail sector.

We have specific marketing—can I answer that question?

Q57 Ian Swales: I want to build on that. I am very pleased with your answer, because my next question was going to be, are you budget-constrained in providing these more expensive apprenticeships? I think you have answered that you are not.

Simon Waugh: Categorically, we are absolutely not.

Q58 Ian Swales: Looking at the great work that the Tees Valley apprenticeship programme has done in this area, how much more can you do to, if you like, help to meet the Government’s aspiration to lift those sectors higher up the lists of what people want to do and the proportion of employers that are offering apprenticeships? That is not satisfactory at the moment. From a strategic point of view, let alone from a tactical and young people point of view, nationally we have a problem, so what else can you do?

Simon Waugh: I do not mean to be complacent. I actually do not think we can do much more. NAS was founded bang on three years ago, but we actually became operational at the end of that year, so we have

been in operation for two and a half years. We are—I am sorry to be clichéd—on a journey.

I think we are putting an enormous amount behind these priority sectors, including manufacturing and engineering. We focus our sales force—we have about 120 or 130 people out there visiting employers—very heavily on these priorities, including manufacturing and engineering. We have bought marketing lists and are mailing those lists, particularly manufacturing and engineering, saying, “If you have skills needs, come and talk to us. There is Government support to upskill and bring new people into your work force.” We are really active.

I and my colleagues from NAS spend proportionately more time in these sectors than any others. I do not spend time with retailers and hospitality. We work with the sectors that have higher value for money. Another NAO recommendation was that we focus on where we get better value. Strategically, at an economic level, and nationally, we are working where BIS has said, “This is where new jobs can be created in the future.” So I think we are doing an enormous amount. Have we fixed it? No, but we are getting there.

Q59 Ian Swales: That is good. I want to move on—again, I am talking about manufacturing and engineering—to training providers. I know in my own area that that ranges from further education colleges, which do lots of good work in certain areas, to group training associations. There are two or three very good ones. One in my constituency is called TTE. They provide fantastic training on industrial-scale equipment. Clearly, it does not come cheap if you have giant boilers or, in one case, a piece of an oil rig, and so on. Are you satisfied that such training providers will continue to be able to offer the quality that they can and that they will not somehow be priced out of the market by the exercise that Mr Russell referred to a few minutes ago? You used the expression “race to the bottom”, which, in those specialist areas, would be a disastrous way forward. Can you satisfy us that you are going to maintain quality, particularly in those areas, as a result of the exercise you are undertaking?

Geoff Russell: If you like, I would be happy to address that. As Simon said, there is no lack of funding for any of these things. We spend about a third of the adult skills budget on apprentices. Providers are free to deliver what they want: if they wanted to spend half of it on apprentices, they could. It is the issue of driving demand, as Simon has described. For more complex frameworks, clearly more money is involved, but what is important in both your questions is to recognise that employers have a role to play, not only in recognising the importance of training but in working with providers to provide the sort of equipment you talked about.

I have seen some fantastic examples of a partnership between colleges, training organisations and employers or groups of employers, where they effectively build a mock training facility—the employer donates equipment—and together they develop the right qualification. Some of it is my

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money and some of it is Peter Launer's money, and some of it is employer money, too. I hear exactly what you say, but I also think that partly what we have to do is to wean employers off the concept that it is the Government's job, so you and others need to play a role.

Chair: Last one, because I remind my members that we have to do National Audit Office expenditure at the end.

Q60 Ian Swales: The last question is simply about feedback. You talked about employers, but the Report says that actually only "seventy-three per cent would recommend their training provider." In addition to all the auditing and inspection that you do, what role does feedback have in your assessment of value for money?

Geoff Russell: When we move to FE loans, it is going to be 100% important, because people will have money in their pocket and if they are not persuaded by the experience that they are going to get and the outcome that they are going to get, they are going to buy somewhere else, which is powerful. We are about, in a couple of months, to launch the national careers service that will provide learners and potential learners with much more information—TripAdvisor information, Ofsted results, destination data—because, to make the market work better, we need to have informed consumers, so that is very much on our agenda.

Q61 Ian Swales: And employers?

Geoff Russell: Equally, employers will have their employees able to access information, advice and guidance. Of course, for apprentices, Simon's people are knocking on the doors and providers are knocking on the doors, because the majority of apprentices are actually sourced as well as delivered by providers, who have an incentive to do that.

Q62 Mr Jackson: The Chair and Mr Bacon have made reference to the letter from the professors at the university of Southampton. I do not want to over-emphasise this issue, and I know you may be encumbered by not having the letter, but my suggestion is that you might want to respond to some of the things that have been said. It seems to me that there is a qualitative and a quantitative issue here. Quantitatively, you have done well in driving up the numbers and, qualitatively, you have done well in terms of the quality of training. However, there does seem to be an issue about 19% of intermediate apprenticeships, particularly if you bear in mind what they say in their paragraph on page 3 about the knowledge element and training in functional skills: "No written test will be required. Reference to training in key and financial skills suggests an apprentice will be continuing to improve their literacy and numeracy in most level 2 apprenticeship frameworks. However, the apprentice is only required to achieve functional skills at level 1." You have resisted the accusation that there is rebadging, but you perhaps need to reconsider that as an issue, which is my first suggestion.

On a micro point, may I draw your attention to page 24, paragraph 2.21, which is about the guidelines that

have been produced by the Government on specifications of apprenticeship standards, particularly on 280 guided learning hours? This is a confusing area, because the Government seem to say that you have to produce guided learning hours of training. It then transpires that hours are not defined, monitored or enforced. The providers have said that they do not take any notice of the hours and that they are not relevant to work-based learning. The service says that providers "do not record how many guided learning hours they deliver, but that apprentices must now declare if they have received" them. There seem to be different perceptions about guided learning hours from the different parts of the equation. What is your view? Will you bring a level of consistency and will you adhere to the guidelines on apprenticeship standards?

Simon Waugh: Yes. May I take that? First, the Government did not set 280 minimum guided learning hours. That is embedded in the frameworks, which were developed by the sector skills councils, which represent the employer. The sector skills councils have boards of employers from the sector—small employers, large, macro. They sit on the boards and have detailed work that goes into finding out what skills are needed for that sector—whether it is new frameworks or adjusting them. They develop the construction of that framework, including the technical certificate. Their view was that the knowledge element—the 280 hours—rather than the competency element, was vital.

We must always have a backstop in terms of self-regulation. That is the employer. If people are not getting the level of training—I think the employer would be horrified if they were allowing a person to do an apprenticeship in your constituency, Chair, and there was no added value of training.

We are doing things to address that. We are running a pilot in the next few years and around a quarter of a billion pounds will go directly to employers of all sizes. They will take the money and they must justify the quality of what they are doing. They will then use that money to go out and buy. One of the issues is whether this is theoretical and whether people really need to be off the job and so on. In reality, employers construct frameworks. The SSCs do that on their behalf with their sign-off—

Q63 Mr Jackson: Can I interrupt? It is not as *laissez-faire* as that, because these are statutory guidelines, with the accent on the word "statutory." We are talking about value for money. Obviously, there has to be a degree of flexibility, but if they are statutory guidelines, they should be adhered to.

Simon Waugh: We agree. There are 300 people working in the National Apprenticeship Service—down from 370 about a year ago. We do not have the resource—neither does the Skills Funding Agency—to go and regulate. Ofsted and other bodies that go in and look at the quality will have an opinion. Also, when learners sign off to get their certificates and complete their apprenticeships, they are asked to validate the amount of time they had off, away from the work station.

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Someone asked about the validation process. We are doing hugely more research, despite austerity and lack of money, to ask, "What was your experience?" If we get the duration right—we get completion rates of 76% or 80%—you could say, "I've completed it. I did it in 18 months," but did it really add value to you? What was it like to do this apprenticeship for the employer? We are doing much more of that research. Through that, as long as the samples are representative, we will know whether the guidelines are being ignored, and either people are not getting the time away from the work station or the 280 hours are not being adhered to.

Q64 Mr Jackson: Is that the substance of your 87 inquiries into providers that are not adhering to the statutory guidelines?

Simon Waugh: No, that was specifically working in partnership with the Skills Funding Agency. When we looked at all apprenticeship programmes running less than six months, 87 of the 1,100 or so—there are some contractors sitting behind that—were delivering short duration. We have gone in and assessed, and we are about halfway through the process of detailed investigations. I am not defending short duration. I do not want everyone to think that I am sitting here trying to say that short duration is a good thing; it is not, but it is much more complex than the media and other commentators have thought.

The armed services have a huge apprenticeship programme. They go off and fight in Afghanistan or go into theatre. They interrupt their apprenticeships, come back and finish them off six months later. That is about 15% of short duration. We also have people who take maternity leave and come back, and people who are made redundant halfway through and start another job. The provider, fortunately, does not say, "Oh well, let's start again and take 100% of the money." They say, "Well, you have finished half of it. We will finish the other half for half the money." So a proportion of short duration is for very good reasons.

Q65 Mr Bacon: May I follow up on that very point? You mentioned 15% for the armed forces and people being made redundant and so on. What you just said prompted a thought. You said that, fortunately, the provider does not go back to the start and take all the money. Would you know if they did?

Simon Waugh: We do because when they record the length of the period and their assessment of prior learning and so on, we review it. Certainly in this 87, some providers are a NAS responsibility and I take responsibility for this. I don't think we made it clear enough to the Skills Funding Agency and providers about the guided-learning hours, on-the-job learning and so on. I know we are not here to talk about 16 to 18-year-olds, but two years ago, 20% of all 16 to 18-year-olds were called "programme-led". They did it entirely in the college. There was no employer on site. We have reduced that by 80% in the last few years. The reason for the 10% is the British Racing School and a few such as Rathbone, the charity. There are a few examples where we have said, "Okay, it's fine

because you have seriously disabled or disadvantaged people."

In terms of the percentage and whether we would know, we track the duration. We have been back to those 87 that are doing short. We have asked for the money back where it is quite clear that they have asked for more than was there. We perhaps were not clear enough to the system and to the Skills Funding Agency about some of the quality rules we have brought in during the last 12 months—SASE and other things—and I think we have learnt some lessons through that. We must be clearer not only with employers and learners about the fees that are coming, but with providers about what is really expected of them. It is up to us in NAS to define that clearly to the Skills Funding Agency, which then communicates that to providers. Only one of the 87 has gone into investigation—that is, we think there is deliberate fraud and taking public money that they should not.

Q66 Mr Bacon: How many?

Simon Waugh: One out the 87. We are halfway through. So we have done about 40 so far. So one of the 40.

Q67 Mr Bacon: Which one was that?

Simon Waugh: I would not have access to that.

Geoff Russell: Happily, I don't know.

Q68 Mr Bacon: Why happily? It makes us unhappy when there is fraud. So how long will it be before you have done the other 47?

Simon Waugh: They are running this on our behalf.

Geoff Russell: In a month or two. The reason I would rather not say who it is, is because it is an investigation and people are not guilty until the investigation is over.

Q69 Mr Bacon: Mr Russell, you mentioned the phrase "without exception" specifically in relation to A4e. I was just looking up the definition. I think it is an American accounting term. The definition I have found is that you have performed a procedure and did not find any errors. Are we basically saying that there was no impropriety and no irregularity? Is that what we are talking about?

Geoff Russell: What I said was that A4e has one of our existing offender learning contracts. We regularly audit our providers. We have not finished, but we are most of the way through one of our standard audits of A4e in terms of their offender learning. There are no findings from that audit that would merit any action on our part.

Q70 Mr Bacon: I was just trying to get to an understanding of the phrase "without exception". I want to be clear that it is not a performance audit. Perhaps the NAO can help me with this. I am trying to draw a distinction between audit in the sense of procedures being followed and audit in the sense of performance or value-for-money audit. "Without exception" is not a performance or value-for-money audit term, is it?

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Geoff Russell: It is a funding audit. We employ a small army of people who—

Q71 Mr Bacon: It is essentially about—

Geoff Russell: The use of public money.

Q72 Mr Bacon: I don't want to use a pejorative term like "hand in the till", but essentially it is about the fact that you did not find in the audit that you did impropriety or irregularity in what you audited. NAO, am I understanding this correctly? It is not a term of art that is used in relation to quality or performance. Is that correct also?

Geoff Russell: It deals with quality in the sense that there are minimum levels of performance and completion, which, as I described earlier, are key drivers of quality, so we check those. We check the existence of learners, whether the learning is delivered and that people attended classrooms. It effectively covers the question, did you make use of the money that we gave you in accordance with the terms of our deal?

Q73 Mr Bacon: Yes, but I am just trying to establish that, in other words, you used it for the purposes for which we asked you to use it. Therefore, it is not performance or value-for-money terminology. It is not a comment on its quality.

Amyas Morse: I would not expect it to be and it is not. "Without exception" is just a phrase. Normally, you would get an audit report and, if you are qualifying it, you would say, "This is a true and fair view with the exception of". You are simply loosely adapting that phrase.

Mr Bacon: Yes indeed. Sorry to have laboured this point. What I want to move on to, which to me is much more interesting, is the quality. Mr Waugh was talking about the work that is ongoing now to establish more about, for example, how it was for you and what the experience was really like. One of the things that the Report said was that 73% of apprentices would recommend their training provider, so, evidently, 27% would not. Are you happy with that figure?

Simon Waugh: After 35 years of being in customer-facing environments, I would say that that is a good figure. What you do not know, and I am not playing games, is how many of that 27% said, "No opinion". That is a big chunk. In research, people say, "Would I want to recommend it? I don't know."

Q74 Mr Bacon: Well, 67% were very or extremely satisfied, while 90% considered that the training was meeting their needs. Is it not just a case of you are not going to please all the people all of the time? Or does it indicate that there is significant room for improvement?

Simon Waugh: One thing is sure: we will never please all of the people all of the time. That is absolutely right. I think that these are pretty good, positive numbers. The fact that 90% rate their training as effective and that 86% of businesses say it drives their performance is outstanding compared with most

satisfaction surveys that I have ever seen in my working life, both in the private and the public sector.

Q75 Meg Hillier: As everyone is sharing their experience of National Apprenticeship Week, I should say that the specialism in my area is restaurants. We have three training restaurants: Fifteen London, in which Jamie Oliver does his stuff; the Hoxton Apprentice, which is a social enterprise; and one run by Hackney Community College, which I had the chance to visit. I also met, with some Ministers, and apprentices at Groundwork. What came out of that was that some of those apprentices, who were different ages, did not know whether they would have a job at the end of the apprenticeship. You have been going three years. Do you do an audit to see how many apprentices at the end of their apprenticeships and beyond are in a job, perhaps two or three years later? If you have not done an audit, do you have any plans to do one?

Simon Waugh: We do not have to three years later. Our estimate from some of our surveys is that 90% continue in a job. The point about some of those stats is that there is no one in the work force that I know of who is guaranteed work going forward. Unfortunately, apprentices are as subject to redundancy as other parts of the work force. Our experience is that apprenticeships have often been protected by businesses because they know that they have an ageing work force and that in the next 10 to 15 years, anything up to 30% or 40% of the work force will retire. It is a difficult question to answer, because these are jobs. It always worries me when people say, "I hope to get a job at the end of it." I say, "But you are getting a salary. You are an employee of this company."

We have had instances when employers take people on under a 12 or 18-month contract. That happens in the public and private sectors. Local authorities have done it when they have had head count freezes. What they hope is that, as people leave the local authority, a person who has completed their apprenticeship can be slotted into that long-term vacancy that has been created by movement in their work force. That does not always happen. With unemployment at the level that we have, and the number of people who are resigning and moving into other jobs, people are holding on to the jobs that they have. More than 90% remain in employment post-apprenticeship, but we must do something about the 10%, because it should be a continuous stream.

Q76 Meg Hillier: I am struck by what you were saying about the halo effect. It seems to me that a good, properly trained apprentice is probably worth holding on to.

The other thing is that Hackney Community College is very good in this respect. It has a number of apprenticeship schemes, including one around Silicon Valley and Tech City. It aims to have 5% of its work force as apprentices, and the Report reflects that that is the general issue. I think that that is a good starting point, but what would you want to see as the

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percentage of apprentices that businesses take on? Would you want to have a set figure?

Simon Waugh: No. We have to make clear, starting with employers, the incredible transformational benefits to business of employing apprentices. Employers then have to make their own mind up about whether that is a route and a methodology that they want to implement in their businesses. Therefore, we cannot be prescriptive. I think the number of apprentices in learning today is getting quite close to the number of people in higher education, for the first time probably for a generation. We are redressing the balance by doing the right thing and by convincing employers, while at the same time convincing learners that this is a fantastic alternative route. It is not the only route. Some people should go to university, and some people should go into other routes.

This is a fantastic pathway for people who are practical and know what they want to do, but who want the definitive skills that will build the foundations for the rest of their working lives. We will not be prescriptive, because it is demand-led. However, I think we are getting near a tipping point—I hate that phrase—where we are getting so much of the message out and where there is so much dialogue, including in this forum, the NAO Report and the BIS Committee, that apprenticeships are back. You could not have said that 10 years ago. I think that that is a good start.

Q77 Meg Hillier: Mr Donnelly, if you look at value for money, Mr Waugh paints a very positive picture—the Report is not bad in this respect—about the impact of apprenticeships on the wider economy. Do you plan, or is BIS planning as a Department, to look at that compared with graduates? Are the Government looking at how long people stay in jobs and, therefore, the long-term impact on taxation income and benefit-spend reduction? I guess that that would fall under BIS if it were happening.

Martin Donnelly: You are right that the overall skills mix in the economy is something that concerns us. We are still sufficiently clear that the gap for Britain—especially at intermediate, but also at the advanced skills level—is so great that it must be right to go on narrowing it. We are also clear that it is important to work with the grain of the direction that people want to go in.

However, we have more to do in two areas. One is as an employer, and we were doing this across Government with the Cabinet Office a few weeks ago. We need to have more apprentices in our own work forces of people who are already working, because it is a great chance for people to upskill, become more productive and get more flexible. We also need to do more to stimulate demand. One of the issues is getting more younger people, but also those within the work force, to want to ask for apprenticeships.

Just going back to the manufacturing theme, we have had three Formula 1 cars in front of 1 Victoria Street with huge apprenticeship programmes behind them. We have had advanced aerospace out there as well. We are doing electronics. We are trying to do more, and there is a lot more to do.

Chair: Do you have an answer to Meg's question? Ask it again.

Q78 Meg Hillier: Are you monitoring the impact on the economy of successful apprentices versus successful graduates and whether more apprentices stay in work longer? It is early days in the current apprenticeship scheme, but if, for example, you had more apprentices staying in jobs longer, are you balancing that against the benefit of going to university?

Chair: It is almost a yes or no answer.

Meg Hillier: It is quite an important message for people when they are making choices.

Martin Donnelly: No. I am not aware of any academic work. There is increasing anecdotal evidence that employers find that people who have done apprenticeships are actually more valuable to them at an early stage than graduates, because they add value immediately.

Q79 Meg Hillier: But in terms of value for money, this seems quite an important issue, because we have a huge political debate about how to pay for university—there is a big hoo-hah about that—and the cost to employers and others of putting money into training. If we are looking at the public pound, the public pound will still be going into universities and the public pound will be going into the training that Mr Russell's organisation provides—are you tracking what the benefit of that is? You said that you are not at the moment, but that you are aware of anecdotal stuff. Are you planning to look at that? It seems to me that if you were coming into government, you would want to know that sort of thing when deciding how to spend money on skills training.

Chair: Again, it is a yes or no.

Martin Donnelly: It is a fair challenge. We are not doing it in that way. It does come out through the success of different businesses. I come back to a point that Simon made. I hope you feel this is answering the question, because I think it is. At the moment, we are not constrained in the funding of apprenticeships in engineering or manufacturing, so the challenge is not, at the moment, the supply side of money. Were that to change, we would need to do more in the area that you have mentioned.

Q80 Chair: I will go to Jackie, but I am going to intervene first, because you said a couple of times in that exchange that level 3 is important; level 3 is where we do not do as well as the French in the international comparators. You say that money is no problem, yet we are introducing a scheme whereby individuals are going to have to put up their money through loans, and employers are. Mr Donnelly's objective, or the Department's objective, is more level 3s. That is the area where you have not been as successful as you might have wanted to be. According to the figures in the Report, level 3 has gone up only 2 percentage points in the last five years; we have gone from 31% to 33% of apprenticeships being level 3. If money is not a constraint, why on earth at this point are you introducing loans?

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Simon Waugh: My response to that is very simple. Skills and levels, in exactly the same way as the academic system, from GCSE to PhD, are a pyramid. A tiny percentage of people do PhDs. We are building a foundation of people at level 2, where, again, nearly three quarters in this Report—

Q81 Chair: I understand that, but I want to ask you about what Mr Donnelly said. I am just going to move you on, because I accept that you do fantastic work. I do not want to take away from you the great work that you have done, but Mr Donnelly said in his answer to Meg Hillier that one of the reasons why he was not quite looking at the value for money of level 2 was that level 3 was what the Department considered interesting.

The Report says that level 3 is the area where there has been less success in apprenticeships. You have had a greater growth of level 2 than level 3. It has gone up 2 percentage points from 31% to 33%—correct me if I am wrong, please, Peter—in the last four or five years. I think that is what the Report says. Then we hear that money is not a problem. Mr Russell said that and Mr Donnelly said it—money is no problem. Why, with that ambition and without the financial constraints that are facing other areas of Government, are we at this time introducing loans? That must put off some individuals from going down the apprenticeship route—I can tell you it would put off my constituents—and could well put off some employers. Why?

Geoff Russell: It is a value-for-money issue. This Government is taking the view that we should rebalance who is responsible for skilling as between employers, Government and individuals. I accept, and I think everyone in the sector accepts, that there are some risks around this and, as Simon said, there is work to do, but broadly, if we in the sector believe that this is beneficial to employers and individuals, the view is we should start shifting more of the responsibility for paying for it to the people who benefit from it, in much the same way as is happening in HE.

Q82 Meg Hillier: That brings me back to the earlier point. Let's say that young people in Hackney, a lot of whom are doing incredibly well now at school level, decide at 18 that they have a choice between a level 3 apprenticeship and university. If they are making that judgment about where they spend their money or their loan or whatever, they will want to know what the likely outcome is. If no analysis is being done, how can they judge that? That has an impact on value for money for the tax pound as well.

Martin Donnelly: May I distinguish between the macro level and the micro level? On the micro level, there is the issue about feedback on what happens to people on courses, and there will be more detailed information about that. Our system is focused on getting individuals to choose what works best for them. There is a separate issue about how that works out for the whole economy, which we have to watch, but we are consciously working to a policy that aims to empower individuals. I think it is worth briefly

adding that the other side of high-level apprenticeships, particularly in manufacturing, is increasing the supply. How do we get more companies to do that? The one other area I will briefly mention is the effort that Simon and team are making to get more small firms to offer these sorts of apprenticeship.

Chair: Making individuals pay is a very funny definition of “empower”. I find that really odd.

Q83 Meg Hillier: There is a danger, when you talk about the macro model, that if individuals make choices on the basis of the money up front—perhaps it is cheaper to do one than the other—that might skew the skill set that we get out for the wider economy. We are talking about wanting more in manufacturing and keeping that base going. I shall leave that one, as I think that we have probably pursued it a bit.

One thing on the issue that Stewart Jackson was raising, I have seen on the Olympic site challenges where people have been asked to self-audit. In the case that they live locally and got Olympic jobs, we are requiring a certificate of completion, which can be given to apprentices only when they have declared themselves that they have received the required amount of training off site. Do you do any auditing of that to make sure that there is no pressure on those apprentices to sign something that they should not sign? If they did sign it, the conclusion would be reached that their employer was colluding with them to do something on the cheap.

Simon Waugh: We do not audit this. I don't know how we would. All I can tell you is that we work incredibly closely with the TUC and the unions. There is something called Unionlearn, with which we work very closely. They tell us every week where they think there are issues around the learner. The obvious thing is that the learner is probably really beholden, if I can put it that way, to their employer—not to a training provider. They cannot apply pressure, and the employer would be incredibly upset if that person had been allowed to go off one day a week, so there is some sense in the triangulation of that, which works pretty powerfully.

Q84 Jackie Doyle-Price: You have emphasised throughout the employer-led aspect of the programme, but obviously there is a strategic objective to upskill the work force, which has undermined our competitiveness in the past by being too low.

Some of the sectors where there is room for growth have been traditionally characterised by self-employment, such as trades involving construction, but in growing emerging industries such as creative industries, again self-employment will be increasing the pattern. How will people who will ultimately be self-employed be able to assess the skills by apprenticeship? Has any thought been given to that?

Simon Waugh: Plenty of thought, although I don't think that we have a great answer yet. It is something that we are working on. For micro-businesses, we have GTAs and ATAs, the apprentice training associations that can club together effectively. We have struck this—not, interestingly enough, just in construction, where, of course, they work through

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subcontract arrangements, so it is a highly fragmented industry, but we are coming across in the area of digital.

Someone mentioned IT and digital earlier. A lot of web designers are self-employed. Microsoft would be a very good example, as would IBM, of those that use self-employed contractors. They are actually working through their supply chain. We have not really cracked it yet, but we are really working hard to find ways of ensuring that significant parts of the work force are not excluded from apprenticeships. That is the flexibility we need, but at the same time we need the employment bit. It was a really good question, and I think that we have found part of the solution.

Martin Donnelly: Another challenging area on which we are working is design and fashion. I was talking to London Fashion Week about how to build creativity and young designers, and how they are linked. There are some real challenges, and we must crack them because it is so important.

Q85 Jackie Doyle-Price: We are talking about a very different labour market. Essentially, we are taking an old model of apprenticeships and bringing it into the new model of employment, and it doesn't exactly fit. That is where you are on the cusp of a challenge. Everyone around the table wants the programme to succeed. We all believe in apprenticeships, and your enthusiasm for them shines out, but because of the speed with which the numbers have increased, we are getting into a quality/quantity dilemma. There is a real risk that the brand of apprenticeship will become undermined if that quality cannot be maintained. Already, some employers who have delivered traditional apprenticeships and who have never left the marketplace have said to me, "Well, we did proper apprenticeships, not these new things."

It says in the Report that, as part of your challenge, you will continue to fund some training opportunities, but perhaps not brand them as apprenticeships. How far have you delivered that? We talked earlier about how you have analysed the problems of very short-term ones, but there is a real qualitative challenge to some of them if we are not going to undermine the brand, which will ultimately impede your ability to offer some of the more advanced apprenticeships that you have been talking about.

Simon Waugh: It is interesting that you talked about traditional employers who have been doing it for years and probably in traditional sectors. I hear this all the time from manufacturing, engineering and construction, and it really irritates me, because right across business, if one industry or even a country—Japan, developed Six Sigma for example, in terms of problem solving, and a whole range of quality circles. If you see something that works brilliantly well, why not lift it up and apply it as best practice?

When I first came across apprenticeships, we had in British Gas—no, it was before that actually. We had it in the engineers. When we talked about call centres, everybody said, "Oh, don't be ridiculous! You don't have call centres in apprenticeships and you don't have people in our reception doing it," but actually,

our reception people were welcoming the world to our 65,000 employees.

So, can I first say that I think it is snobbery about it having to be advanced, high-end or whatever? Definitely skilling people and giving them that foundation is vitally important—we know that—to their prospects, the value for money coming out of their wage, enhancement and so on. The first thing I would say is that if it works brilliantly well in manufacturing, engineering and construction, why would they resent something that they have brilliantly created, held on to for hundreds of years, and not want other parts of our economy to share in that? And we pay the difference, so this thing about, "It's not a real apprenticeship"—that is why we are paying £4,000 for it, not giving advanced manufacturers £25,000 for it. It is still about skills, the way you learn, and practical and vocational learning.

I can be accused of being defensive, but I do not think that fundamentally we have a quality issue here. I think we have a fantastic programme. All the analysis—so much of it is in the document—says great value for money, and employers say, "It has changed my business." Learners said—some 73%, I think it was—"I want to do more of this." Bear in mind that it is not like GCSEs, where you move straight into A-level. These are job-related. So, if I do level 2, more often than not, I cannot move immediately into a level 3 or a level 4, because I have to wait to be either promoted or do a bigger job, but that is what level 2 enables you to do. At the margin, where we have really poor provision, where learners are being let down, and employers are—I think it is sub-5%. I cannot prove that to you. On 450,000 starts, what is 5%? About 9,000, or whatever it is—no, 22,000.

Q86 Chair: Can I put a question to you about it? We have heard a lot about employer-led, but perhaps the problem that I met, when I was hoping I would go to a fantastic scheme in Barking, was because of it being provider-led. If the provider gets the money and not the employer, the provider will perhaps not provide anything, or will provide the qualification that is the most profitable for them, or something like that. You have said a lot, "employer-led", "employer-led", but at the moment the system is quite provider-led.

Simon Waugh: That is why we are embarking on this pilot for employer ownership, where they get the money, and they then have to submit a bid to us around what they are going to do. So, it cannot be, "I'm just going to use it to do my own training as I would anyway, and I'm going to subsidise it." They have to prove that what they want to invest it in—apprenticeships and other vocational learning—has real added value and is a real incremental learning experience for the people they want to train, and so on. They will then—as an informed buyer, if you like, with the money—not just dive to the bottom in terms of quality, but actually go out and say, "Who is the best person out there?" It is re-engineering. I hear a lot from employers that it is provider-led, qualifications-driven and Government-driven. We are trying to

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change that round. It will take some years of cultural change to get employers to step up to the plate.

Q87 Jackie Doyle-Price: Coming back to the issue of traditional apprenticeships versus modern ones, there is an issue of quality within sectors. It comes out between sectors, but you mentioned retail specifically. There has obviously been a big growth in retail. For example, I think of the apprenticeship system that Morrisons offer, which is excellent, but effectively you are going to be comparing apples and pears, depending on the nature of the business. How do you differentiate that in terms of funding? Would you have differential levels there too?

Simon Waugh: Absolutely. Going back just two or three years, if we spent £100 on a 16 to 18-year old, we paid £50 for a 19 to 24-year-old, and £40 for a 25-year-old. We have discounted that by another 10% because the demand was there—the supply and demand. We knew we could do that on the rates that we charge. On top of that, for macro or large employers with more than 1,000 employees, we applied another 25% discount. With the very large employers—Morrisons has a fantastic programme. If you read the press, it is all “Disgraceful” and “Why are McDonald’s” and so on, but actually, Morrisons is one of our biggest employers. If you want to find some of the people in this country with the lowest levels of skill and numeracy, go to a Morrisons, an Asda, a Tesco or some of the big hospitality companies.

The great thing is that these employers have clustered up for us. We are paying for the individual to be trained; it just happens that the employer gets the benefit. We then negotiate very clearly with Asda or Morrisons, not just the standard WRAC rate we’ve got of £40 minus 25%. We negotiate individually. Our focus—I know this is about adults—is 16 to 18 first and securing, as much of that, new employees coming into the work force. Then we go to 19 to 24, because we hope, again, that it will address some of the NEET issues and so on, and 25-plus. If they’ve given us a lot of that, 16 to 24, we will then pay something; sometimes 25p in the pound, and sometimes not at all. In these really big schemes, the employers have large swathes of people who desperately need—it may be a bit trite, but I have a fantastic quote in here from some research. A 35-year-old woman said, “I’ve felt a failure all my life. I’ve never succeeded in anything, and now the sky’s the limit.” That’s what we are doing thousands of times over, hundreds of thousands of times over. I agree with you that it’s not perfect. I think quality is an issue, but I will tell you: we’re all over it. We don’t want to be associated with poor-quality programmes; we want to be associated with great-value programmes of the highest quality that change people’s lives and transform the economy through the skill transformation that we can get through business. That is what we are about.

Q88 Mr Bacon: Why don’t we get you to run the whole Government? After 50 years of failure in the public sector, we just need you, Mr Waugh.

I have one question about the pilot. It sounded quite interesting. Obviously, the issue of employers finding that it is Government-led, that it is not really doing what they want it to do and that they have to fit it into the wrong shape for what they really need is one that you have got to get round, but I think I heard you say that the employers get the money, and then? It sounded like you hand over some money and they go shopping. Is that right? If so, how is quality controlled in the pilot?

Simon Waugh: Well, they have to bid for it and say, “I want £1 million, and this is what we’re going to do.” We would not hand over public money—especially not with the Comptroller and Auditor General sitting here—without absolutely verifying what the programme is and what it is buying in that sense. Part of the debate that we are having with the UK CSS—Charlie Mayfield, chairman of the John Lewis Partnership, has been driving this; it is something that the Skills Commission feels very strongly about and we are supporting it as the Skills Funding Agency in the Department, so we want to make sure exactly what they want.

Then they will go and either find a provider or construct one. They may have to go out and find a different group of providers. Interestingly enough, David Way, chief operating officer of the National Apprenticeship Service, and I were at Siemens six months ago, and they said, “We need medical technologists and engineers. At the moment, we’ve got them vertically—people who understand medical science, and engineers—but we need people who can do both.” What we will be looking at is how to create hybrids across effectively different sectors. It really is about employers designing the skills that they need for the future and then the provision that sits behind it. They will then go out and, with our help, secure that and procure it, and we will monitor those programmes once they are launched.

Q89 Chair: Two quick final questions to Mr Donnelly. Why do we need both the Skills Funding Agency and the National Apprenticeship Service?

Martin Donnelly: Fair question. We are clarifying the relationship between them going forward. The Skills Funding Agency covers all the adult skills funding, not just apprenticeships. Within that, purchasing of the services for what Simon provides is an important service and draws on the skills that we already have. The two organisations are co-located. We are clarifying both the accounting officer relationships and the policy. Moving forward, we are planning and Ministers want to turn Geoff’s operation into a more standard executive agency, so that it fits into the wider model that the Cabinet Office sets up. I would stress that it is a culture of co-operation and people literally sit next to each other.

Q90 Chair: I understand that. I think there is some duplication in there, which in these constrained times could be got out of the system. As you read the Report you wonder why you have got two. I can see it has evolved over time, but particularly if we are now moving into employers bidding for money to the

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apprenticeships service, I cannot quite understand—even there, the Skills Funding Agency will no longer be doing the providing; the employers will be buying it.

Geoff Russell: There is probably some duplication in that there are two chief executives, but as I think you can probably tell, Simon is the salesman and I am the accountant. I think that is a pretty good combination.

Simon Waugh: The duplication, Chair, is minute. We work incredibly closely together. I think it has worked fantastically well.

Q91 Chair: Within your organisations.

Simon Waugh: Within our organisations. I think the accountabilities could not be clearer. Our job is the end-to-end responsibility for apprenticeships, so if there is market failure, learners who are not happy or not getting the right thing, people who do not know how to access apprenticeships, or an employer asking, “How do I get involved in this?”—that is all us. We are customer service, sales, marketing and working on strategy with the Department. The Department owns the strategy policy, however, and we deliver it.

Q92 Chair: Are you going to become an executive agency too?

Simon Waugh: We are part of one, actually. We are in the Skills Funding Agency. The reason why there is very little duplication is that it was set up that way to ensure that we do not create our own HR department, our own IT or our own finance. All that is provided, so the Skills Funding Agency is the mother and we have the umbilical cord to us. We are very externally focused; it is about financial control. One of the biggest things: NAS was created by a submission by a group of large employers who said, “If you want to transform apprenticeships in this country, you need an organisation that will be dedicated and will have end-to-end responsibility.”

The cultural difference between our two organisations could not be greater. Imagine if RBS decided that it was going to buy Virgin Media. We are about a brand, customer service and quality; these guys are about quality and so on, but the culture is about financial control—if you like, Geoff is the banker, in a positive way—

Geoff Russell: I don’t get a bonus.

Simon Waugh: And we are Virgin. The culture is very different.

Q93 Mr Bacon: So what is Mr Donnelly for?

Simon Waugh: To keep us under control, which he does very well.

Q94 Chair: Mr Donnelly, both these gentlemen are leaving, so when are they being replaced? Is there going to be a gap? Tell us your plans.

Martin Donnelly: This is sad, but being managed. We will have interim appointments in both jobs as we work towards developing the executive agency model, which is designed to keep all the best parts of the system that Simon has very fluently outlined. We have got an appointment process going for Simon over the coming days, and one for Geoff under way as well. It will be a challenge to find replacements of the same standard, but we will try.

Q95 Mr Bacon: They will be interims. I think that I heard you say the word “interim”.

Martin Donnelly: Yes, that is right.

Q96 Mr Bacon: Your Department has some recent form on interims, does it not, with Mr Lester and his contract, where he was paid gross to a personal services company? Can we be sure that that will not happen with any of the folks that you are looking for now?

Martin Donnelly: I can reassure you that all of the processes will be fully followed.

Q97 Mr Bacon: That is not the answer to my question.

Martin Donnelly: It is, but, yes, I understand the point.

Q98 Mr Bacon: It said in Coriolanus, some 400 years ago, to proceed by the procedure. What we are looking for is to ensure that there is not some sort of—

Chair: They will pay their PAYE?

Martin Donnelly: Yes, definitely. I will briefly say, on behalf of colleagues here and all the staff, that we appreciate the comment that you made at the beginning. There is a huge motivation to deliver here. We want to go on doing even better, and the comments that you have made and the work that you do with apprenticeships is tremendously helpful to do that.

Chair: Thank you very much indeed and thank you for the good evidence session.

Written evidence

Written evidence from Alison Fuller and Lorna Unwin, University of Southampton

1. INTRODUCTION

1.1. We welcome the Public Accounts Committee's decision to examine adult apprenticeships in

England following the recent report from the National Audit Office (NAO). In this submission, we wish to draw the Committee's attention to the reasons why the majority of apprentices in England are now aged 19 or over when they start their apprenticeship and how this sheds light on longstanding concerns about quality. *A key question we want to raise is: how much money is actually spent on training as opposed to accreditation and transaction costs?* These issues are not discussed in the NAO's report, but, we argue, they should be central to any examination of the effectiveness and value for money of adult apprenticeships.

2. *Is apprenticeship suitable for adults?*

2.1. We begin with this question because it isn't raised in the NAO report. In other European countries (and in the UK until very recently), apprenticeship has always been regarded as a programme of skill formation for school leavers. It takes the form of a supported journey during which an individual matures and becomes a recognised member of an occupational community.

This takes time to enable the individual to develop their expertise through vocational practice in the workplace and through acquiring wider knowledge about the concepts and theories related to their occupational field. In creating an apprenticeship vacancy, an employer sends a strong signal that they are investing in and are committed to the creation of a highly trained workforce, and that apprenticeship is seen an integral part of a whole workforce development strategy. As such, apprenticeship is qualitatively different to providing standard on-the-job training.

2.2. In England, there are two categories of "adult apprentices": 19–24 year olds; and 25+. Many people will be surprised to learn that the majority of apprentices are now over the age of 19 when they start their apprenticeship, and 40% are 25 or over. The 16–18 year old school leavers are in the minority. So, are all these adult apprentices engaged in the model of learning described in the paragraph above? To answer this question, we have to address the next issue.

3. *Why are the majority of apprenticeships "conversions"?*

3.1. In 2008, when we acted as special advisers to the then Innovation, Universities, Science and Skills Select Committee, it was publicly revealed for the first time that approximately 70% of apprentice starts (across all age groups) were conversions¹. By 2007–08, there were just over 27,000 starts in the 25+ age group. The most recent full year figures (2010–11) show that the number of 25+ starts had grown six-fold to 180,000. Currently, 54,000 (30%) of the 180,000 were over 45 years old and nearly 4,000 were aged 60 or above. Much of the recent increase can be explained by the rebranding of employees on Train to Gain as apprentices when the former scheme was withdrawn by the Coalition government. However, the practice of conversions has a longer history.

3.2. There are three interrelated reasons for the practice of "conversions". The first lies in the largely unregulated nature of occupations in England (and the UK more broadly), but it is the other two reasons that are of particular relevance: a) the use of competence-based qualifications as the mandatory output from all government-funded training programmes since the 1980s; and b) the obsession of successive government with increasing the stocks of qualifications in the workforce. Central to the competence-based approach is the separation of the process of training (and acquisition of vocational knowledge) from the assessment of competence. Advocates of this approach argued that it would enable adult workers who had not had the opportunity to gain qualifications to get recognition for their expertise.

3.3. There is some evidence, including from our own research on the automotive component manufacturing sector, that the competence-based approach can be beneficial to organisations and individuals (Unwin et al. 2008; see also Cox, 2007 on the health sector, and Fuller and Unwin, 2006) so long as NVQs provide access to new learning rather than simply accrediting existing skills and knowledge. Achieving a qualification can be very motivating, but not if it doesn't build a platform for further progression.

3.4. The minimalist standards enshrined in the Specification of Apprenticeship Standards in England (SASE) including a requirement for only 100 hours off-the-job training and the use of NVQs helps explain why two thirds of adult apprenticeships in England are at Level 2 and why so many adult apprenticeships can be classed as conversions. It also helps explain why service sector apprenticeships dominate the apprenticeship statistics. The top three "sector frameworks" for apprentice starts in 2010–11 accounted for about a third of all starts registered in the 170 plus apprenticeship frameworks that are available.

¹ Select Committee Inquiry scrutiny of the Apprenticeship Bill, the report is available to download at: <http://www.publications.parliament.uk/pa/cm200708/cmselect/cmdius/1062/1062i.pdf>

Table One

12 MOST POPULATED APPRENTICESHIP SECTORS IN ENGLAND 2010/11

SECTOR TOTAL STARTS

<i>Sector</i>	<i>Total Starts</i>
Customer Service	53,970
Health and Social Care	53,720
Retail	41,410
Business Administration	38,900
Hospitality and Catering	29,810
Management	29,790
Children's Care, Learning and Development	27,410
Engineering	18,330
Active Leisure and Learning	17,650
Hairdressing	16,450
Construction	15,590
IT and Telecoms Professionals	12,030
Vehicle Maintenance and Repair	9,060

Source: Data Service

3.5. Currently, many apprenticeships at Level 2 are linked solely to the accreditation of the competencies needed to perform workplace tasks in specific job roles, as well as narrowly defined functional skills. Such provision simply mirrors the limited learning requirements of low-level jobs, and leaves the government's scheme open to the criticism that it is reproducing low-level skills as well as funding "deadweight" provision.

3.6. In their report (page 13), the NAO state that all apprentices have to complete the following framework components:

- a competency element, leading to a National Vocational Qualification (NVQ) or similar qualification, which assesses how well the apprentice performs a particular occupation;
- a knowledge element, leading to a qualification such as a diploma, which covers the theoretical knowledge required by an individual in a particular sector; and
- training in "key" or "functional skills", leading to qualifications in maths and English.

This is misleading for two reasons. First, some apprentices (notably in sectors such as engineering) will attend college on day-release to study for a separate and substantial knowledge-based qualification (sometimes referred to as a Technical Certificate²) as well as an NVQ. However, for most apprentices, the "knowledge element" as stated above will not involve participation in a recognized off-the-job course. It will either be embedded in the NVQ or, if it is separate, will lead to an award with very limited recognition, currency and value. In the NVQ model, at Level 2 and 3, knowledge will be assessed as part of the observation of task performance by the assessor asking questions (eg why are you using boiling water in the preparation of vegetables) and through the inclusion of statements of evidence in the candidate's portfolio. Normally, no written tests will be required. Second, the reference to "training in key or functional skills, leading to qualifications in maths and English" suggests that an apprentice will be continuing to improve their literacy and numeracy. In most Level 2 apprenticeship frameworks, however, the apprentice is only required to achieve functional skills at Level 1 (well below the GCSE threshold of Grades A*-C for employability).

3.7 Funding for apprenticeship is diluted through multiple steps in the funding allocation chain—BIS→SFA→NAS→Providers→Employers→Apprentices—along the way, other organisations take a slice (eg Apprenticeship Ambassadors Network, Sector Skills Councils, UKCES, Awarding Bodies, Apprenticeship Training Agencies, Group Training Associations). The money pays for a range of administrative tasks, for the cost of qualifications, assessment and accreditation, inspection, and for wages. For example, Awarding Bodies benefit greatly from apprenticeship. In the past, they provided significant levels of curricula and pedagogical support to their "centres" (eg FE colleges), but this has declined in recent years. The key question we wish to raise is: *How much money is actually spent on training as opposed to these other costs?*

3.9. The minimalist requirements outlined above amount to an impoverished concept of apprenticeship. We would argue that these, combined with complex and opaque funding arrangements, do not produce value for money for the individual (whatever their age) or for society. Moreover, using apprenticeship as a vehicle for converting adults' existing skills into apprenticeship achievements does not align with the urgent need to create more and better jobs to help the economy grow.

² In response to concerns about that apprentices in some sectors were not acquiring new knowledge above and beyond that required for everyday work tasks, the government implemented the recommendation of the Cassels report of 2001 that every apprenticeship should include a knowledge-based Technical Certificate as well as an NVQ. In 2007, the government dropped this requirement and simply required apprenticeship frameworks to show how the knowledge-based element formed part of the mandatory NVQ.

4. TOWARDS EXPANSIVE ADULT APPRENTICESHIPS

4.1. Maintaining apprenticeship programmes in today's economic climate is tough because it requires employers to plan for the medium to long-term. All countries, therefore, struggle and the quality of apprenticeship will vary within and between sectors. Through research in a wide range of workplaces, we have developed the concept of the expansive—restrictive continuum (see Figure One below) as a tool for analysing why some apprenticeships offer so much more than others. The key characteristics include the extent to which apprentices are given access to (new) knowledge and skills and recognised vocational qualifications, to structured on and off-the-job training, include the opportunity to learn about the whole work process rather than only discrete tasks, and provide a platform for higher learning and career progression (for more details see Fuller and Unwin 2011a; Fuller and Unwin 2011b).

Figure One

THE EXPANSIVE–RESTRICTIVE CONTINUUM

<i>Expansive</i>	<i>Restrictive</i>
Apprenticeship is a vehicle for aligning goals of individual development and organisational capability Workplace, training provider and (where present) trade union share postapprenticeship vision: progression for career	Apprenticeship is used to tailor individual capability to immediate organisational need
Apprentice has dual status as learner and employee	Post-apprenticeship vision: static for job Status as employee dominates: status as learner restricted to minimum required to meet statutory “apprenticeship framework” Fast transition to productive worker with limited knowledge of occupational field; existing productive workers given minimal development
Apprentice makes gradual transition to productive worker, gaining expertise in occupational field Apprentice treated as member of occupational and workplace community with access to community's rules, history, knowledge and expertise Apprentice participates in different communities of practice inside and outside the workplace Workplace maps everyday work tasks against qualification requirements—qualification valued as extending beyond immediate job requirements Qualifications develop knowledge for progression to next level and platform for further education Apprentice has time off-the-job for study and to gain wider perspective Apprentice's existing skills and knowledge recognised, valued and used as platform for new learning Apprentice's progress closely monitored—regular constructive feedback from range of employer and provider personnel who take a holistic approach	Apprentice treated as extra pair of hands who only needs access to limited knowledge and skills to perform job Participation restricted to narrowly defined job role and work station Weak relationship between workplace tasks and qualifications—no recognition for skills and knowledge acquired beyond immediate work tasks Qualifications accredit limited range of on-the-job competence Off-the-job simply a minor extension of on-the-job Apprentices regarded as “blank sheets” or “empty vessels” Apprentice's progress monitored for job performance with limited feedback—provider involvement restricted to formal assessments for qualifications

4.2. We have examples of world-class expansive apprenticeship provision in England, particularly in engineering, but also in other sectors. The problem is we have too much at the restrictive end of the continuum and that is where many of the adult apprenticeships, particularly at Level 2, are located.

5. CONCLUSION

5.1. Little is known about the experiences of adult apprentices and there has been a surprising lack of debate about what adult apprenticeships are for, particularly for adults aged 24 and over.³ There is nothing to suggest that, given opportunities to engage in meaningful new learning and knowledge-based qualifications that can provide a platform for career progression or a change of occupation, adults would not be able to benefit from apprenticeship. We would argue, however, that the core principles of the expansive—restrictive continuum are important in all apprenticeships. In our view adult training that does not meet this benchmark should not be called an apprenticeship.

³ Research does show that opportunities for adult employees to access off-the-job training in England plateaued in the mid-1990s—see Mason and Bishop, 2010 and Felstead et al, 2011

5.2. We would urge the Public Accounts Committee to go beyond the NAO report to ask whether the Department of Business, Innovation and Skills, the Skills Funding Agency and the National Apprenticeship can provide evidence to show that public money is being spent on quality apprenticeship programmes providing adults with substantial new training or re-training for skilled employment as opposed to some basic on-the-job training and the accreditation of existing skills.

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Written evidence from Michael Woodgate

ADULT APPRENTICESHIPS

Recently I watched coverage of the Public Accounts Committee meeting of 7 March about adult apprenticeships. The web page invited comments so I hope you and your colleagues might consider a few points I’d like to make. These concern:

- The fundamental premise on which government funding for skills and training is based.
- The lack of value of the English and maths elements of intermediate apprenticeship frameworks.
- The lack of any organisation being responsible for regulating adherence to BIS prescribed off the job guided learning hours.

I worked in the logistics industry for 20 years and then spent seven years working for a Sector Skills Council. I now work independently helping employers work out what skills their people need and how these skills can best be developed.

The main point I would make is that the fundamental questions of *why* and *how* government funds skills development need to be more thoroughly explored.

With regard to why government funds skills development, Martin Donnelly explained this clearly at the beginning of the hearing. “UK employers have not trained enough...If we don’t intervene, levels of training and qualifications will be too low.”

A short time later there was discussion of how much value an apprenticeship adds to the business, the learner and the nation. Impressive figures were banded about demonstrating the effect of apprenticeship programmes on productivity and profitability.

So we have BIS saying on the one hand that apprenticeships significantly boost productivity and on the other that UK employers don’t train enough.

Assuming these two facts are true the next question to be asked is “If this is the case why don’t employers embrace apprenticeships?”. And the next question is “How do we get them to change the way they behave?”

BIS seem to have skipped this stage and gone straight to the answer “If employers won’t pay for training the taxpayer must.” This has been the consistent position held under both the present and previous governments.

Such a position is fundamentally flawed. There is a disconnect between the causes of the problem (lack of employer investment in training) and the prescribed solution. Austin Mitchell made the point that UK employers regard training as a cost rather than an investment and the panel agreed. The issue therefore is that UK workplaces are not very well run—a well run workplace would see clearly the link between investment in training and productivity gains, it would recruit, train and manage staff effectively and it would not necessarily expect any help from the taxpayer to do this, other than perhaps to make up gaps in literacy and numeracy, or subsidise the cost of expensive technical training.

So would not taxpayer money be better spent supporting businesses to improve the way their organisations are run? Such support would aim to make organisations better procurers of training, better at “articulating their demand” and better able to understand and quantify the return from investing in skills development.

But instead of taking this approach BIS has decided that the best way to counter a collective lack of employer intelligence is to give them money, albeit indirectly. In this respect skills development and training is unique. If BIS were encountering similar reluctance by employers to invest in IT would the taxpayer be giving IT providers a lot of money to install computer systems across UK workplaces? Of course it wouldn't and of course it doesn't need to—employers see the value of IT systems so they invest in them.

Nor is there any evidence that paying for training encourages employers to invest in more learning “going forward”. This was precisely the pump priming principle Train to Gain was built on and it failed utterly to do this.

Another problem with the BIS approach is that it equates skills development with qualifications. There are all sorts of ways to develop people's skills and the culture and management of the workplace has a far greater impact on the development of generic “employability skills” (working with others, relating to customers, problem solving etc.) than the delivery of a Level 2 qualification.

Of course there is a role for formal training and assessment, but the Leitch view, expressed to me by a member of that committee, “What are skills? Qualifications, then we can measure them”, is at the core of much of the current inefficiency and waste.

Making the delivery of qualifications a central plank of government strategy, along with giving providers the money and incentives to deliver them, has led to the current situation whereby, as Margaret Hodge observed, the apprenticeship programme is almost entirely provider led. It is the providers who have a product to sell, (nowadays called a “solution”) and government funding to go with it. Paragraph 3.10 of the NAO report illustrates this starkly—83% of adult apprenticeships are in just 15 frameworks.

This does nothing to address the fundamental issue which Donnelly outlined at the start of the session—UK employers do not train enough; there is a lack of employer demand for apprenticeships.

The new Employer Ownership of Skills pilot aims to address the provider led problem by giving money directly to groups of employers to purchase their own training. This will undoubtedly address the depression in employer demand caused by providers overwhelmingly offering the apprenticeships that are quick and easy to deliver in bulk. But again it must be asked whether simply giving employers money will address the fundamental reasons that cause investment in skills to be so low in the UK.

The new pilot is based on the same old BIS view that the way to up skill people is to train them and the way to train them is to deliver qualifications. The fact is that the issue is a lot more complex. Skills development is fundamentally a part of organisational management, not something separate from it, or an alternative to it. “They're not doing their job very well, therefore they need training”. Perhaps they could do with better management and more inspiring leadership. Yes there is a role for formal training, but this is but an element of skills development which is in itself an integral part of an organisation's overall management, culture and values.

Until this fundamental truth is recognised, rather than ignored in favour of a simplistic quest to purchase “effective training solutions”, taxpayer's money will remain at risk of being wasted.

I would make a couple of other brief points.

1. For many Intermediate apprenticeships delivered to people already in work the added value comes from the improvement in English and maths skills. However most Intermediate frameworks require the candidate to achieve only Level 1 (GCSE Grade D—G) in both these subjects, ie apprentices are required to achieve a level below the one they should have been at when they left school.

It is questionable whether this represents value for money for the taxpayer, particularly in light of the recommendations of the Wolf report.

2. The Committee raised the question of off the job Guided Learning Hours and who monitors them. As was pointed out these are statutory requirements set out in the Specification for Apprenticeship Standards in England (SASE) yet no organisation has the responsibility of ensuring that the required number of off the job GLH are being delivered.

There cannot be many areas of public life where a government department lays down some rules yet no-one is responsible for monitoring compliance to these rules. This also explains why the short, sharp, low value apprenticeships were able to be delivered so easily.

I would conclude by reiterating that the fundamental issue with apprenticeships is a lack of employer demand, as many on the committee highlighted. Rather than analyse and address the underlying causes of low demand, both this government and the previous one have elected to bulk buy qualifications for employers. One has to question whether this is the best way to upskill the UK workforce and the most productive use of taxpayers' money.

Thank you very much for reading this—I have submitted a more in depth analysis of apprenticeships to the BIS Select Committee and will happily send it to you if you wish.

19 March 2012

Written evidence from Chief Executive, National Apprenticeship Service

I am grateful for the constructive and helpful discussion we had on adult apprenticeships. We are continuing to carefully examine the issues discussed and will look forward to the publication of your report in due course.

The main outstanding area where I promised to provide additional information was to respond to the evidence submitted by Professor Lorna Unwin and Professor Alison Fuller which I had not had the opportunity to examine in advance of the hearing.

We have now had the opportunity to assess their submission. It makes a number of interesting points—some of which I recognise from Professor Unwin and Professor Fuller's earlier work. In particular the distinction they draw between an expansive or narrow concept of apprenticeships is helpful. We strongly believe that the apprenticeship programme is, and should be focussed on achieving that expansive vision.

The attached note addresses the points that Professor Unwin and Professor Fuller make in some detail and I hope will clarify the rationale for our approach.

Please let me know if it would be helpful for me to provide anything further.

I have agreed this note with Martin Donnelly. I am also copying it to John Hayes and to Geoff Russell.

Response by the National Apprenticeships Service to the written submission by Professor Lorna Unwin and Professor Alison Fuller to the Public Accounts Committee on Adult Apprenticeships

The National Audit Office report confirmed that Apprenticeships deliver strong value for money, which the NAO estimate at £18 for each £1 of Government investment (with some legitimate room for debate around the level of wider benefits to businesses, which the Department argues should lead to a higher figure of £28). This result was driven primarily by the higher wages associated with completing an Apprenticeship—the NAO found that those who had completed an advanced Apprenticeship earned wages on average 18% higher than otherwise similar individuals, while those who completed an intermediate Apprenticeship received wages on average 11% higher. These higher wages indicate the additional value that employers see those who have completed apprenticeships delivering, indicating apprentices' greater productivity, achieved through the effectiveness of their training.

The strength of the Apprenticeship programme in delivering high quality training was confirmed by the high satisfaction levels reported by individuals, employers and inspectors, which were set out in the NAO report. Ninety one percent of Apprentices were satisfied with their training, 86% of Apprentice employers considered that vocational qualifications improved their business performance, while 61% of apprenticeship providers were rated good or outstanding by OFSTED.

Professor Lorna Unwin and Professor Alison Fuller make a number of criticisms of the Apprenticeship programme:

- (i) That a large proportion of apprentices already worked for their employer prior to starting their frameworks, and that it is debatable whether apprenticeships should be offered to adults.
- (ii) That to a large degree apprenticeships involve accrediting pre-existing skills, rather than substantive new learning.
- (iii) That apprenticeships are concentrated in a small proportion of the available frameworks, and that the most popular frameworks are in service industries.
- (iv) Some apprenticeships are too narrowly defined, and focussed on job specific skills, rather than wider skills and progression.
- (v) That funding for apprenticeships is diluted through multiple steps in the allocation train, and it is not clear what is spent on training.

These points are taken in turn. Finally, to draw these issues together, the note also examines why Apprenticeships deliver significant additionality, as raised by the Committee.

(i) Why offer apprenticeships to adults, or to those who are already employed?

Professor Fuller and Professor Unwin identify that a number of countries set an upper limit on age eligibility for their apprenticeship programmes (although it is important to note that a number of others such as Australia and Sweden with highly regarded programmes do not). The NAO report on adult apprenticeships identified the high level of value the programme delivers. The overall objective of the programme is a matter for Ministers, but there is strong evidence that individuals and the economy benefit from adults being able to take apprenticeships, and significant value could be lost if eligibility were to be restricted.

In order for the UK to build a skills base which is competitive internationally, it is not sufficient merely to train new entrants to the workforce. As a country, our intermediate skills base (level 2, equivalent to GCSE) is low by international standards, ranking 19th out of 33 countries of the OECD (by comparison the UK is ranked 9th out of 34 countries for level 4 or higher—equivalent to degree level). To ensure that we have the skilled workforce necessary to boost productivity, innovation and growth, it is necessary that we also target individuals who are already in the workforce but who lack the skills they need to be optimally productive or to progress. Completing an apprenticeship benefits individuals already in the workforce by raising their skills levels and providing them with a recognised, rounded qualification, which both improves their productivity with their existing employer, and enhances their credibility in the labour market in future.

Unwin and Fuller raise further concerns over the expansion in the number of apprentices who are aged 25+. The number of apprentices aged over 25 has expanded rapidly, responding to demand from employers, since a decision in 2008 to extend eligibility to that group. It is important to note that the adult apprenticeship budget is entirely separate to that for 16–18 year olds, so the expansion in the number of adult apprentices does not impact on the funding available to support apprentices aged under 19.

Government investment in apprenticeships is designed to focus on market failures. We recognise that employers are likely to see taking on younger apprentices as a greater risk, as they are less likely to have experience of the workplace, and may be seen as less mature. Therefore whereas provision for 16–18 year old apprentices is fully funded by Government, provision for learners aged 19–24 would normally receive only 50% funding, and those aged 25 or over would receive less again (particularly in the case of provision delivered for large employers, who have economies of scale). While it is true that apprenticeships for learners aged 16–18 represent a minority of the programme in numbers, they receive the majority of funding (64% in the 2010–11 financial year). By contrast apprentices 25 or over received only 11% of funding in the 2010–11 financial year.

(ii) Is there a risk that Apprenticeships simply accredit pre-existing skills, rather than adding real value?

First it is important to note that the National Audit Office report highlights the high level of economic benefits being delivered by apprenticeships—it is implausible that the NAO would have found such a high level of economic return had apprenticeships in general represented merely an accreditation of existing skills.

It is true that some apprentices will have pre-existing knowledge which they will be able to accredit through an apprenticeship. This does not need to represent bad value for money. Funding for apprenticeships can only be claimed for the remaining elements of the apprenticeship which need to be completed for the achievement of the framework—this is monitored through a field in the Individualised Learner Record (ILR). Accrediting existing skills will enhance individuals' value in the labour market; at a macro level it also enhances labour market flexibility, enabling labour resources to be deployed more efficiently—raising UK productivity.

However, while the accreditation of existing skills need not represent bad value for money, we agree that there are risks to the Apprenticeships brand if significant new learning is not always occurring. One key aspect of addressing this has been to crack down on any instances where Apprentices are seen to be completing their frameworks in significantly shorter durations than would normally be expected. Ministers have made clear that all apprenticeships must entail a rigorous period of learning and the practice of new skills, and should normally take at least a year to complete (the current average is 13 months). Those who already have significant knowledge should, where possible be encouraged to progress to a higher level (such as an advanced Apprenticeship). A minimum course duration length of 12 months has been set for 16–18 year olds, and NAS are advising Ministers on whether to extend this approach to older learners.

NAS and the SFA are currently conducting a review of all short duration programmes. John Hayes provided a detailed update in his Written Ministerial Statement of the 27 February. At that point 87 organisations providing training had been identified as warranting review. Of these investigations, 29 had been brought to a satisfactory conclusion, with providers where necessary changing delivery models or ending delivery that doesn't meet requirements. These cases will continue to be monitored. So far, the review has identified 10 primary contractors and three subcontractors where the Agency and NAS have unresolved concerns. NAS and the Agency will conduct a full investigation to resolve these cases, and will if necessary require provision to be adapted, or will withdraw funding. The reviews of the majority of the cases that remain will be finalised by April 2012.

The Apprenticeship Programme is underpinned by the Specification of Apprenticeship Standards in England (SASE) published in January 2011. This sets out the standards that all apprenticeship frameworks in England must meet, including the minimum of 280 guided learning hours. The introduction of the new statutory

standards is also key to ensuring all apprenticeships focus on new learning. All frameworks were reassessed and in many cases altered to meet SASE requirements; many issues that have been raised in relation to quality relate to pre-SASE delivery. From August 2011 only SASE compliant frameworks have been funded, any training that does not meet these standards will have funding removed. NAS and SFA are tightening the performance management of apprenticeship providers, with tighter contracts to allow rapid withdrawal of funding where standards are not met; new safeguards will strengthen monitoring, reporting and subcontracting.

A range of further measures are being taken to safeguard quality and ensure new learning, for example. As John Hayes set out in his Written Ministerial Statement of 27 February, we are introducing a new contractual clause to ensure that training organisations and employers act within both the stated *policy intent* as well as the *regulations* of the system. We will work with the sector to frame and define this clause. Failure to uphold standards will constitute a breach of contract. The Agency will also publish clear guidance on the funding that can be drawn down when an apprentice has prior learning—ensuring a clear link between delivery and investment by the Government.

(iii) *Why are apprenticeships concentrated in a small proportion of the available frameworks?*

It is true that as the NAO have identified, 83% of Apprenticeships in 2010–11 were in 15 framework subjects. However, the top ten frameworks corresponded to around 140 job roles and occupations. The National Apprenticeships Service has found that these job roles roughly correspond to the occupations of about half of the working age population as set out by the Office for National Statistics.¹ The most popular frameworks in the UK are similar to the most common apprenticeships in other countries including Germany and Australia. Apprenticeships are broad qualifications, and are adaptable (each framework can have multiple “pathways” or routes by which it can be completed—and so can be adapted to meet different learner and business needs).

Apprenticeships are jobs, and therefore the spread of apprenticeships reflects the balance of the economy—it is not surprising that there is demand for apprenticeships in areas such as customer service and business administration, which cover large areas of business activity. The system is designed to be flexible, with the National Apprenticeships Service working with Sector Skills Councils to create new frameworks, where there is a need for them in particular sectors. The widely recognised nature of these frameworks has value (and in part addresses one of the Unwin/Fuller criticisms) in that it demonstrates that an apprenticeship in one of the core frameworks will be valued by a wide range of employers, and the skills delivered will support a variety of different jobs.

In providing apprenticeships it is in providers’ interests to respond to demand from employers, and to offer frameworks that are needed. Where individual employers are unable to find provision which meets their needs, the National Apprenticeship Service will work to aggregate employer demand, and to seek to identify a provider that can support these employers.

It is important to recognise that the diversity of Apprenticeship provision serves a number of purposes. The nature of an intermediate retail apprenticeship for an individual who has been unemployed, and has been supported by the Access to Apprenticeships scheme, is likely to be very different to an advanced apprenticeship in engineering at Rolls Royce or Bentley Motors, and the funding provided will differ to reflect the content of the respective courses,—but both apprenticeships can serve valuable purposes.

(iv) *Some apprenticeships are too narrowly defined, and focussed on job specific skills:*

As Fuller and Unwin correctly identify, there are three core elements of an apprenticeship framework, a competency element (such as an NVQ), a knowledge element such as a diploma which covers the theoretical knowledge needed in each sector, and training in transferable functional skills covering areas such as Maths, English and ICT. Fuller and Unwin’s criticism is that (i) the knowledge element can be embedded within the NVQ, and (ii) that in most apprenticeship frameworks the key skills requirement is only to achieve level 1—which is below the standard of a C in GCSE.

All Apprenticeships must contain these elements as set out in SASE. The knowledge and competency elements can be contained in one overall qualification, currently this occurs in about 40 cases, however they must be individually assessable and contain all of the credits and elements set out in SASE.

The requirement to achieve level 1 in English and Maths applies to intermediate apprenticeships. Advanced apprenticeships which represented a third of the programme in academic year 2010–11 require attainment in English and Maths at level 2 (A*-C at GCSE or functional skills equivalent). Advanced apprenticeships expanded by 76% (the most rapidly growing part of the programme) in 2010–11.

At intermediate level, as Ministers set out in November 2011, our view is that all Apprentices should be working *towards* achieving level 2 in English and Maths. Providers will be expected to ensure that apprentices who have not attained a GCSE at A* to C or Functional Skills Equivalent, continue to develop their learning towards achieving that objective—and we will work with OFSTED and the SFA to hold providers to account on that.

This approach recognises that some intermediate apprentices will have found English and Maths particularly challenging, and have failed to achieve at GCSE. Attaining level 2 in English and Maths is important, and

delivers significant benefits to the individual, but we need to strike a balance between pushing apprentices to achieve, and not excluding learners who found English and Maths particularly challenging in school (sometimes because of learning difficulties), and may have some distance to travel in achieving the level of a good GCSE.

(v) *Is funding for Apprenticeships diluted through multiple steps in the funding chain?*

This claim is not correct. 81S, DfE, SFA, and NAS each have clearly defined administration budgets. Under Treasury rules, none of the Apprenticeship Programme budget can be spent on Government administration costs. Similarly the Apprenticeship Ambassadors Network, the UK Commission for Employment and Skills, and Sector Skills Councils are all funded through entirely separate routes and do not receive any Apprenticeships Programme funding. Therefore all programme funding for apprenticeships is passed by the SFA to providers, and the allocations each provider receives are published.

It is true that providers will have administration and marketing costs, which they will cover out of the programme budget, and that the SFA does not regulate provider administration costs. Overall Apprenticeship funding rates have been reduced in recent years meaning that only efficient providers may make profits. The funding received by providers reflects the Agency's costing of the provision required to deliver the framework as set out by Sector Skills Councils or other framework developers. Providers are judged against their OFSTED inspections, and their success in achieving successful completions, and have to hit minimum levels of performance. It would be extraordinarily bureaucratic to seek to regulate how much each individual provider spends on administration—it is much more efficient to set qualification standards, and let the market drive efficiency.

(vi) *Finally, why can we be confident that Apprenticeships deliver significant additionality?*

As described above, an Apprenticeship is a broad ranging programme, which facilitates labour market flexibility—incorporating training in English and Maths as well as knowledge and technical competence in the relevant sector. While employers might invest in job specific training without Government support, they are less likely to support their employees in gaining qualifications which they could then use to apply for jobs elsewhere, or to invest in transferable skills. UK businesses in general invest less in training than their international competitors. A 2005 study found that the average duration of training for UK employees was the lowest in the OECD (for countries for which the data was available). Without Government investment our relative position would be weaker.

Furthermore, Government investment in apprenticeships is targeted to address market failures, and thereby maximise additionally. Learners aged under 18 are fully funded; employers can be reluctant to invest in younger learners, as they as a group are seen to have less experience of the work place, and often less maturity. From a Government perspective investment in young people has a high value—as they have the longest time left in the workforce to benefit from the skills they gain. Full funding for this age group is also consistent with their entitlement to free education (as offered for example by school sixth forms).

For learners aged 19–24, Government normally provides around half the funding it would for a learner aged under 19. For learners aged over 24 Government in general provides around 20% less again. Further reductions in funding are made for the provision of apprenticeships with large employers who have economies of scale—with individual negotiations held with the largest employers of apprentices to ensure the best possible value is achieved. From 2012–13 advanced apprenticeships for learners aged 24 or over will be supported by loans, in a similar approach to that adopted by higher education. This approach is designed to maximise the additional impact of Government investment, by enabling individuals to invest in their own skills.

There are currently several ongoing pieces of academic research to assess the level of additionally achieved by the Apprenticeship Programme—with work by London Economics and the University of Warwick due to become available in the next couple of months.

The introduction of a new approach to funding skills training through the Employer Ownership Pilot, launched in February 2012, which will route up to £250 million of funding for training directly to employers over two years will further test the value for money achieved by the existing system. Employers taking part in the pilot will need to demonstrate the extent to which public funding will leverage in private investment, and achieve additional impact.

CONCLUSION

There is clear evidence, as the NAO have shown, that apprenticeships deliver high value in return for Government investment, and that individuals receive significant wage premiums for completing an apprenticeship, which indicates that they have achieved a higher level of productivity. The points which Professors Unwin and Fuller make should be examined in that context.

It is easy to take a very narrow view of what an apprenticeship should be, and to see elements which do not fit a particular, and arguably restricted view, as not being worthwhile. However Ministers have taken the view that it is right that the apprenticeship programme covers a broad range of provision and serves a variety of ends—just as is the case in higher education, where there are significant differences between a PhD course in biochemistry, and a foundation degree, but that does not mean that both do not deliver high value. More

learners now start an apprenticeship each year than start an undergraduate university course—so it is to be expected that there will be a diversity of provision. Ultimately apprenticeships are designed to meet the needs of employers and individuals now and therefore must reflect the realities of our economy, and its potential for growth, rather than a nostalgic view of it.

The Government funding provided for the provision on offer is designed to focus on the areas that deliver highest value and that are most expensive to support younger learners, and sectors which require highly intensive learning, such as engineering.

It is right that we should be careful in protecting the highly regarded Apprenticeship brand. We have taken action to safeguard quality, crack down on poor provision, raise standards and ensure all apprenticeships deliver new learning of real value, but there is of course more to do and we welcome Professor Unwin and Professor Fuller's helpful analysis, in particular the distinction between the expansive and restrictive visions of apprenticeships. We strongly believe that the Apprenticeship Programme is and should be focussed on learning broad skills, achieving progression in learning and in the workplace, the transition to becoming a productive worker as expertise is gained, and use of existing skills and knowledge as a platform for future knowledge. We accept that there are elements of apprenticeship provision that risk veering too far towards the restrictive end of the Fuller and Unwin continuum; the strong actions that we are taking to safeguard quality and focus the programme's delivery on high value will ensure that the programme continues to deliver the expansive vision.

21 March 2012

Written evidence from the Media spokesman for the Association of Employment and Learning Providers

“Poor” short-course apprenticeship provision is only 3.7% of total apprenticeship cohort, reports National Apprenticeship Service

Following the evidence given to the PAC by the chief executive of the National Apprenticeship Service on 7 March, the latest weekly newsletter to members of the Association of Employment and Learning Providers (AELP), who deliver over 70% of apprenticeships in England, contains the following item:

“Poor” short-course apprenticeship provision is only 3.7% of total apprenticeship cohort, reports NAS

In response to a written request from the Association of Employment and Learning Providers, the National Apprenticeship Service has reported that the proportion of achievers who have completed apprenticeships under six months with the 13 training providers and colleges whose provision has given rise to significant concern under the current SFA/NAS quality review, accounted for only 3.7% of total completers within the overall apprenticeship programme in 2010–11.

Following on from his recent comments on the muddying of linked apprenticeship issues and a yet to be identified real need for minimum training periods for apprentices aged 19 and over, AELP chief executive Graham Hoyle responded to this latest highly significant piece of data by saying:

“In its 10 year existence, AELP has always championed the improvement of service and delivery among providers and therefore we support the comprehensive review being undertaken by the NAS and the Skills Funding Agency. Nevertheless, it is encouraging that this latest hard data supports what the NAS Chief Executive told the Public Accounts Committee in the Commons on 7 March, namely that in relation to such a major programme where something in the region of 750,000 young people and adults are improving their skills, we are talking about a comparatively small problem. This suggests that some of the media commentary has been overblown and certainly disproportionate.

“AELP continues to work closely with the agencies to try and eliminate any potential elements in the apprenticeship frameworks that might lead to poor practice. We believe that any further policy changes should encourage high quality provision but they should also be made in a considered way that reflects the interests of employers and learners.”

Picking up on Mr Hoyle's point about the current total apprenticeship cohort being close to 750,000, a figure that has not been challenged, AELP would argue that if it were possible to produce an accurate calculation of 'problem provision' that pulled in apprentice starts and those still in training, the percentage would be even smaller than 3.7%. In AELP's view, this would strengthen the case still further for a proportionate response policy-wise.

AELP has noted that in today's Budget Report the Government remains committed to increase adult apprenticeship funding by £250 million a year by 2014–15, compared with the previous Government's level of spending.

21 March 2012

Written evidence from the Chief Executive, Skills Funding Agency

ADULT APPRENTICESHIPS

I am writing in relation to my testimony to the Public Accounts Committee on 7 March 2012 where a question was raised concerning the performance and outcome of recent audits into A4E.

I wanted to make the Committee aware of the audits being undertaken by the Skills Funding Agency, DWP, and by A4E itself. If the results of these audits conclude that there is comprehensive fraud or negligence, and the Agency will take swift action as a result.

I can assure you that the Agency is vigilant and continues to monitor the situation closely.

29 March 2012

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