Apprenticeships: Government Response to the Committee's Fifth Report of Session 2012–13
Business, Innovation and Skills Committee

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The Reports of the Committee, the formal minutes relating to that report, oral evidence taken and some or all written evidence are available in a printed volume. Additional written evidence may be published on the internet only.

Committee staff

The current staff of the Committee are James Davies (Clerk), Amelia Aspden (Second Clerk), Peter Stam (Committee Specialist), Josephine Willows (Committee Specialist), Ian Hook (Senior Committee Assistant), Pam Morris (Committee Assistant), Henry Ayi-Hyde (Committee Support Assistant) and David Foster (Media Officer).
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Fifth Special Report

The Committee published its Fifth Report of Session 2012–13, Apprenticeships, on 6 November 2012. The Government’s Response was received on 10 January 2013 and is appended to this Report.

The Committee’s recommendations are set out in bold. Where the Department has provided summaries of those recommendations, these are set out in italics.

Appendix: Government Response

Government Policy

The Committee welcomes the Government’s commitment to raising skills in the workplace through the Apprenticeship programme. (Paragraph 25)

Apprenticeships are vital for equipping people with the skills they need to prosper, and the nation with the workforce we need to compete in the global race. Over a million people have started an Apprenticeship since 2010, right across the economy.

The report rightly celebrates the sharp rise in the number of Apprenticeships and steps taken to improve their quality, but there is more to do.

So the Government welcomes this timely and thorough investigation into Apprenticeships, and will consider carefully its suggestions to help make the programme even more successful.

Our evidence suggests that the apprenticeship scheme continues to lack clarity and purpose in the longer term. Employers, apprentices and other stakeholders remain confused about the overarching objective of the scheme. We therefore recommend that the Government defines an overarching strategy and clear purpose for the apprenticeship programme. Only then can the public and Parliament effectively monitor progress against the outcomes the scheme is intended to achieve. (Paragraph 26)

Recommendation 2 - That the Government defines an overarching strategy and clear purpose for the Apprenticeship programme. (Paragraph 26)

The Government has a clear strategy and purpose for the Apprenticeship programme, as articulated in the 2010 Skills Strategy—Skills for Sustainable Growth and 2011 New Challenges New Chances; Ministers have regularly set out their priorities for the programme—sustainable growth focussed where it can deliver greatest value; raising quality and standards; and employer ownership, engagement and simplification.

However, it is right that we continue to review and refresh our strategy priorities and approach to ensure that we are keeping pace with the changing needs of learners, employers and the economy, and continuing to maximise value for money. That is why Ministers asked Doug Richard to advise the Government on how the Apprenticeship
programme should evolve to meet future needs, and welcomed his report which was published on 27 November 2012. The Richard Review provides an ambitious and challenging call to refine the Apprenticeship strategy going forward to ensure all Apprenticeships rise to the standards of the very best. The Government will consider Mr Richard’s recommendations over the coming months and consult in the spring on their implementation.

The National Apprenticeship Service has accepted that its priority in the past has been increasing the number of apprentices and the number of employers taking on apprentices. However, many of our witnesses have argued that the success of the apprenticeship scheme cannot and should not be measured by numbers alone. We are encouraged that NAS is now putting greater emphasis on quality, but are concerned that three of its five priorities for 2011–12 remain focussed on increasing the number of apprenticeship starts. We recommend an urgent review of the objectives and priorities of NAS with a view to justify a focus on achieving quality outcomes in both the objectives and culture of NAS. There must be appropriate measures of output for each objective. Therefore we further recommend that qualitative information (such as quality perception, apprentice satisfaction, public awareness and employer support) also be collected and published alongside more traditional statistics. We discuss and recommend further on this later in the report. (Paragraph 27)

Recommendation 3a - An urgent review of the objectives and priorities of NAS with a view to justify a focus on achieving quality outcomes in both the objectives and culture of the National Apprenticeship Service (NAS). (Paragraph 27)

The Government shares the Committee’s strong focus on quality in Apprenticeships. The NAS’s priorities include a strong focus on quality—as evidenced by its work on raising standards and increasing the relevance of Apprenticeships and how they are delivered—this has included the publication of the Quality Statement, implementation of a minimum duration, making clear the link to framework requirements, offer of Functional Skills at Level 2 and requirement for providers to deliver new learning, review of short duration programmes and thematic and specific framework reviews. It works closely with the Skills Funding Agency to ensure that Apprenticeship training providers are managed on the basis of the quality they deliver, and that all those involved in designing and delivering Apprenticeships have a clear and shared understanding of the quality outcomes expected in Apprenticeships.

As the Apprenticeship programme continues to evolve, with an ever-increasing focus on quality, and as the status of the Skills Funding Agency and the NAS change in the months ahead, BIS will continue to ensure that both organisations are enabled to fulfil their quality objectives effectively.

Recommendation 3b - That qualitative information (such as quality perception, apprentice satisfaction, public awareness and employer support) also be collected and published alongside more traditional statistics. (Paragraph 27)

The Government welcomes the Committee’s suggestions for future research and data collection. A wide range of detailed qualitative information is currently collected and published, including through two major annual Apprenticeship surveys of Employer and
Learners. These capture views on the Apprenticeship experience including satisfaction with the Apprenticeship and all aspects of the process from recruitment to post completion. 2013 surveys will be extended to include follow up on previous completers and link Employer and Learner responses. A series of reports on the net benefit to employers has been published which include pay back periods for employer investment as well as detailed responses on the rationale for investment in training.

In addition the NAS quarterly tracking survey also gathers range of qualitative data. The development of a forward research programme will allow additional areas to be considered as appropriate.

**Defining an apprenticeship**

It is generally agreed that a single definition is needed to clarify the apprenticeship brand and enable effective regulation. For that reason, we recommend that the Department formulates a formal definition of an ‘apprenticeship’. It is important that employers, apprentices, regulators and the Government have a common understanding of what is meant by an apprenticeship, and what is not. While we understand the need for flexibility (for example in the area of duration and past experience), an ‘umbrella’ definition should include the following elements:

- Full-time employment;
- Accreditation and a measure of educational gain;
- Independently accredited work based learning;
- Independently accredited off the job training;
- Competence based skill development programme;
- An employer led design;
- Opportunities for progression; and
- A minimum duration agreed by industry sectors.

Furthermore, any definition should state clearly that apprenticeships are for developing skills not simply for the validation or consolidation of existing skills.

(Paragraph 33)

**Recommendation 4** - That the Department formulates a formal definition of an ‘Apprenticeship’... an ‘umbrella’ definition should include the following elements:

- Full-time employment;
- Accreditation and a measure of educational gain;
- Independently accredited work based learning;
- Independently accredited off the job training;
- Competence based skill development programme;
• An employer led design;

• Opportunities for progression; and

• A minimum duration agreed by industry sectors.

Furthermore, any definition should state clearly that Apprenticeships are for developing skills not simply for the validation or consolidation of existing skills. (Paragraph 33)

We agree with the Committee that there should be a clear definition of an Apprenticeship. The requirements of an Apprenticeship in England are set out in the Apprenticeship, Skills, Children and Learning Act (2009) and the Specification of Apprenticeship Standards for England (SASE). It is the effect of the Act that (with a small number of specific exceptions) all apprentices must be employed, and working towards the completion of a recognised Apprenticeship framework. Frameworks are developed with employer input, and to comply with SASE. All frameworks must include substantial on and off the job training, and specify:

• Competence-based qualification—designed to demonstrate the ability to discharge the functions of a certain occupation which is typically certified via a qualification assessed in the workplace;

• Knowledge-based qualification—provides the theoretical knowledge underpinning a job in a certain occupation and industry. The competence and knowledge elements may be combined within a single qualification;

• Transferable skills—English, maths (and ITC were deemed a requirement for the job role);

• Personal learning and thinking skills (PLTS), namely: independent enquiry, creative thinking, reflective learning, team working, self management and effective participation; and

• Employee rights and responsibilities (ERR)—to ensure that apprentices fully understand their rights and responsibilities in the workplace.

The Guidance Document for Framework Developers has been reviewed and updated to reflect the quality agenda including a greater emphasis on minimum durations, demand from employers, clear presentation of on and off the job learning as well as progression. We will explore how this might be further developed as part of the Richard Review implementation.

The Statement on Apprenticeship Quality published by the NAS in May 2012 defines an Apprenticeship as:

“a job with an accompanying skills development programme designed by employers in the sector. It allows the apprentice to gain technical knowledge and real practical experience, along with functional and personal skills, required for their immediate job and future career. These are acquired through a mix of learning in the workplace, formal off the job training and the opportunity to practice and embed new skills in a real work context. This
broader mix differentiates the Apprenticeship experience from training delivered to meet narrowly focused job needs.

On completion of the Apprenticeship the apprentice must be able to undertake the full range of duties, in the range of circumstances appropriate to the job, confidently and competently to the standard set by the industry.”

The Government is clear that Apprenticeships should be focussed on the development of new skills and not just the validation of existing ones. This has been confirmed in both the Quality Statement published by the NAS and the Funding Rules published by The Skills Funding Agency. The Funding Rules are currently being reviewed to strengthen requirements.

**Delivery and funding**

While we welcome recent efforts to improve the administrative processes for apprenticeship training for employers, we are concerned that the funding chain remains unnecessarily complex. The sheer number of organisations involved works against the efficient allocation of funds. We therefore recommend that the Department provides a simpler and more efficient delivery system. (Paragraph 41)

**Recommendation 5 - That the Department provides a simpler and more efficient delivery system. (Paragraph 41)**

The Government is keen to ensure that Apprenticeships are as simple as possible for individuals and employers to access and that the delivery system is efficient and drives value for money.

To simplify the system and make it as accessible as possible, the Government has developed through GOV.UK and the NAS the Apprenticeship vacancies on-line system (which can be accessed via [http://www.apprenticeships.org.uk](http://www.apprenticeships.org.uk)). The system helps individuals to understand Apprenticeships better and search through vacancies. It also enables employers and learning providers to advertise vacancies to a wide range of interested applicants. As well as applying for existing vacancies, candidates are able to register their interests in particular subject areas and will receive automatic notification of any potentially suitable vacancies as they arise. We are also taking forward the recommendations of Jason Holt’s review into how to make it quicker and easier for SMEs to access Apprenticeships.

To drive efficiency, the Government commissioned Doug Richard to undertake a full employer led review of Apprenticeships. We are currently considering the recommendations of the Richard Review into the future of Apprenticeships, published on 27 November 2012, which includes proposals on improving efficiency and value for money.

We note the concerns that the funding structure (of 100 per cent public funding for 16–18 year olds and 50 per cent for 19–24 year olds) may bias firms towards employing younger apprentices and unfairly disadvantage older applicants. However, there is a lack of empirical evidence and analysis to substantiate these concerns and it is disturbing that the Minister does not have this evidence to hand. We therefore
recommend that the Department provides a detailed assessment of the impact that the funding structure has had on the take up of apprenticeships by age group. That assessment should specifically address the following four issues:

- The actual cost to businesses of employing apprenticeships of differing ages and experience;
- Inequality perpetuated by the funding;
- Barriers to progression through the scheme; and
- Disproportionate impact on specific sectors. (Paragraph 52)

Recommendation 6 - That the Department provides a detailed assessment of the impact that the funding structure has had on the take up of Apprenticeships by age group. That assessment should specifically address the following four issues:

- The actual cost to businesses of employing apprentices of differing ages and experience;
- Inequality perpetuated by the funding;
- Barriers to progression through the scheme; and
- Disproportionate impact on specific sectors. (Paragraph 52)

Current funding structures have supported the substantial expansion of the programme, with benefits assessed for individuals, employers and the wider economy and with strong returns for Government investment, as the National Audit Office report has helped demonstrate (Published 1 February 2012).

Demand has risen most strongly for 19–24 and for older age groups, despite public funding reducing compared to 16–18 years olds, for whom 100% of the training cost is met.

In May 2012 BIS published ‘Employer Investment in Apprenticeships and Workplace Learning: The Fifth NET Benefits of Training to Employers Study’. This detailed an assessment of the costs and benefits to different types of business of employing apprentices, based on 80 case studies ranging across 8 sector areas. It illustrated how employer costs, benefits and timescales for return on investment vary by sector and circumstance. In addition the assessments have also provided a deeper understanding of the varying ways in which the programme is being used, including the different approaches to recruitment by age and other factors between sectors. “In kind” contributions such as through mentoring and additional supervision were also considered. The report is available at: http://www.bis.gov.uk/assets/biscore/further-education-skills/docs/e/12-814-employer-investment-in-apprenticeships-fifth-net-benefits-study

Future research will consider how to further extend evidence on the costs and benefits of Apprenticeships in the different circumstances of the employer and learner, including by sector, age and prior employment status.
Measures to support progression within individual sectors such as construction are currently being considered by the Government within the context of its industrial strategy work.

**Perception of apprenticeships**

While we welcome the efforts of NAS to strengthen the apprenticeship ‘brand’, we cannot ignore the evidence that the perception of quality may have been damaged in some sectors, which has in turn undermined those efforts. NAS must not trade off between numbers, quality and brand. We therefore recommend that NAS produces a longer-term strategy outlining how it intends to maintain and improve the apprenticeship brand in tandem with its other objectives. (Paragraph 60)

*Recommendation 7 - That NAS produces a longer-term strategy outlining how it intends to maintain and improve the Apprenticeship brand in tandem with its other objectives. (Paragraph 60)*

The Government shares the Committee’s aspirations to further strengthen and promote the Apprenticeship brand. The NAS is responsible for marketing and promotion including the branding of Apprenticeships.

NAS will build on an already successful marketing and communications strategy. The main strands include: communicating the tangible benefits of being involved in Apprenticeships to employers of all sizes; sharing the pride and success of apprentices that achieve demonstrating the difference that Apprenticeships can make to both business and to individuals; and celebrating the achievements of individuals, employers and the economy as a whole. Specific campaigns are aimed at promoting Higher Apprenticeships, the Apprenticeship Grant for Employers and the Apprenticeship Vacancy system. NAS is now working with the Behavioural Insight Team and its Cabinet Office Communications Team in their development of a targeted strategy focused on improving the engagement of 16–18 year olds.

In addition National Apprenticeship Week 2013 (March 11–15) offers an opportunity to celebrate the best that Apprenticeships have to offer and strengthen the brand. It is expected that over 800 events will take place across England and over 1,660 pieces of national, regional and trade press coverage generated, which will help to maintain and reinforce brand awareness.

**Engaging apprentices – Preparing for apprenticeships**

During our inquiry we saw a number of excellent apprenticeships schemes run by business. However, despite the fact that many apprenticeships lead on to degree courses, they are not always promoted in schools as an equally viable route to a career as ‘A’ levels and university. Furthermore, these routes are often intertwined with students moving between the two. This may be because schools are measured, primarily, by ‘A’ level attainment and the number of university places gained by each academic year which forces teachers to concentrate on the academic route. This needs to be changed. We therefore recommend that alongside the number of university places
gained in an academic year, schools should also be required to publish the number of apprenticeship starts. (Paragraph 68)

**Recommendation 8** - That alongside the number of university places gained in an academic year, schools should also be required to publish the number of Apprenticeship starts. (Paragraph 68)

The Government agrees that it is important to know how many school leavers go into Apprenticeships. Education Destination Measures were published for the first time on 17th July 2012. The Measures show the percentage of students continuing their education in school, Further Education or 6th form college or Higher Education institution, and the percentage training, including through an Apprenticeship. The measures are published at national, local and institutional (i.e. school or college) level.

The Destination Measures are published by the Department for Education (DfE) rather than schools and colleges themselves. The Measures are based on the data already received, meaning there are no additional burdens or data collection required by schools and colleges.

DfE has no plans to require schools to publish additional destinations information themselves. However, schools are encouraged to use the data published in Destination Measures to support and prepare their students to progress to positive sustained destinations, including Apprenticeships.

We acknowledge that the inclusion of apprenticeships in careers advice is legislated for in the Education Act 2011, but we have found that awareness and resources in schools and colleges remains lacking. We recommend that the Department for Education does more to assist schools in the promotion of vocational training in the curriculum (for example by providing literature, training to teachers and information for careers advisors). It should also ensure that any changes to the secondary curriculum will put proper emphasis and value on pupils taking a vocational route in their careers. The time and resources that institutions dedicate to ‘UCAS applications’ compared to preparing students for vocational training illustrates the scale of the problem. Success will be measured when schools and colleges place vocational and academic progression on an equal standing in terms of the both the level and quality of resources. (Paragraph 69)

**Recommendation 9** - That the Department for Education does more to assist schools in the promotion of vocational training in the curriculum (for example by providing literature, training to teachers and information for careers advisors). It should also ensure that any changes to the secondary curriculum will put proper emphasis and value on pupils taking a vocational route in their careers. The time and resources that institutions dedicate to ‘UCAS applications’ compared to preparing students for vocational training illustrates the scale of the problem. Success will be measured when schools and colleges place vocational and academic progression on an equal standing in terms of the both the level and quality of resources. (Paragraph 69)

Given the widely held view that NAS should have more involvement with learners through schools, we were disappointed by the Chief Executive’s apparent lack of enthusiasm, citing the Education Act 2011 and telling us that NAS was not statutorily
responsible. The National Apprenticeship Service should be a familiar name, known to all students and teachers as an authoritative source of information about apprenticeships. We recommend that NAS is given statutory responsibility for raising awareness of apprenticeships for students within schools. This should include some quantifiable measure of success with which to gauge the student awareness of apprenticeships. (Paragraph 74)

**Recommendation 10 - NAS is given statutory responsibility for raising awareness of Apprenticeships for students within schools. This should include some quantifiable measure of success with which to gauge the student awareness of Apprenticeships (Paragraph 74)**

The Government agrees with the Committee that schools have an important role to play in ensuring their pupils have access to good quality information about the vocational routes open to them. That is why schools have been given responsibility for ensuring that young people receive appropriate advice through a new duty to secure access to independent and impartial careers guidance. The duty states that information has to be provided on the full range of 16–18 education and training options, including Apprenticeships. Schools are expected to work in partnership, as appropriate, with external and expert careers providers.

Statutory guidance, published in March 2012, outlines the essential aspects that schools need to consider in meeting the duty. A practical guide, published in July 2012, provides examples of good practice and signposts schools to the NAS for more information on Apprenticeships.

The NAS has developed resources for schools and employers to help them understand and be more responsive to the needs of young people and to promote Apprenticeships to young people and their key influencers. These resources include lesson plans, IAG information sheets, checklists, website links, sector based IAG tools etc. In addition the NAS has formed a partnership with the Education and Employers taskforce and is promoting ‘Inspiring the Future’ which provides high quality speakers into schools for free.

The National Careers Service offers an authoritative source of professional careers advice and information about careers and skills, including labour market trends. It contains information about Apprenticeships and their benefits alongside links to the National Apprenticeship website. All National Careers Service advisers have received training from the NAS.

**Equality, diversity and accessibility**

While we were encouraged to hear that the National Apprenticeship Service does take diversity into account, the statistics show that it remains a significant problem. We welcome the work conducted by NAS into diversity, and recommend that it is given specific responsibility and accountability to raise awareness of apprenticeships among under-represented groups. This should include a responsibility to promote the advantages of diversity directly to employers. We believe that the apprenticeship programme should be an inspiration and beacon of best practice to the wider economy, demonstrating the advantages of greater diversity at all levels of industry. (Paragraph 80)
Recommendation 11 - That NAS is given specific responsibility and accountability to raise awareness of Apprenticeships among under-represented groups. This should include a responsibility to promote the advantages of diversity directly to employers. We believe that the Apprenticeship programme should be an inspiration and beacon of best practice to the wider economy, demonstrating the advantages of greater diversity at all levels of industry. (Paragraph 80)

The Government agrees with the Committee that the Apprenticeship programme should be an inspiration to all and demonstrate the advantages of greater diversity at all levels of industry.

The number of apprentices from under represented groups (LLDD and Ethnicity) has increased, but not as quickly as total Apprenticeship numbers. The NAS promotes diversity to employers with use of case-studies, awards and through the Apprenticeships Vacancy system which provides an open and transparent recruitment service, connecting employers with a diverse pool of potential recruits.

In autumn 2010, the NAS and the Skills Funding Agency commissioned 16 pilots across England to undertake activities which would aim to increase demand for, and supply of Apprenticeships among under-represented groups. These were known as the Diversity in Apprenticeship (DiA) pilots. Actions arising from an independent evaluation of the pilots are now being implemented.

In addition BIS (working with the NAS) commissioned Peter Little OBE to review and recommend actions that could help create a more inclusive Apprenticeship offer for people with learning difficulties and disabilities. The final report titled Creating an Inclusive Apprenticeship Offer is now available: http://www.apprenticeships.org.uk/~/media/documents/AU-CreatingAnInclusiveApprenticeshipOffer-Report-May2012.ashx

Engagement with large businesses

We were encouraged to hear about the high level of support that the National Apprenticeship Service offers large businesses and the apparent success it has had in this area. We recommend that NAS continues to support large employers to engage with the apprenticeship programme, and in particular to use their positions to support local schemes and encourage connected smaller businesses (for example those in their supply chains) to become involved in the programme. We also recommend that the Government actively highlights and celebrates examples of good quality apprenticeships taking place in large businesses to extol the benefits to other employers. (Paragraph 86)

Recommendation 12a - That NAS continues to support large employers to engage with the Apprenticeship programme, and in particular to use their positions to support local schemes and encourage connected smaller businesses (for example those in their supply chains) to become involved in the programme. (Paragraph 86)

Recommendation 12b - That the Government actively highlights and celebrates examples of good quality Apprenticeships taking place in large businesses to extol the benefits to other employers (Paragraph 86)
The Government welcomes the Committee’s comments. The NAS will continue to support large employers and connected smaller businesses. For larger employers (250 employees plus) the NAS has teams of expert Employer Account Managers placed across the country who ensure that employers have all they need to build high quality Apprenticeship programmes. From 2013–14 academic year, the NAS recommended as part of the Skills Funding Statement 2012 that they should offer its large ‘Direct Grant’ holding employers a revised contract which encourages them to deliver training to (or in partnership with) their supply chains. However this was rejected by Government.

The NAS also supports national and regional Ambassador networks to ensure that employers have a trusted peer group to talk to. Ambassadors promote Apprenticeships to all employers but they are particularly helpful in influencing smaller employers and supply chains.

The Government agrees that it is important to highlight and celebrate good quality Apprenticeships and extol the benefits to other employers. The annual Apprenticeship Awards, managed by the NAS is an important event that promotes and celebrates the achievements and value of Apprenticeships to employers and individuals. The event attracts over 1,000 entries per year—this year saw over 1,400 entries. In addition the NAS also publish the Top 100 Apprenticeship Employers list in conjunction with City and Guilds.

The NAS are also one of 3 main partners in World Skills UK which this year attracted over 70,000 visitors. Good practice examples are highlighted as part of PR and media outreach. The talents of young people and the quality of teaching and learning are promoted through World Skills UK national competitions which are delivered by the NAS and over 30 organisation partners.

Case studies are regularly placed in national, trade and regional media. More is being done with a focus on the Apprenticeship Grant for Employers (AGE) incentive. From January 2013 ‘Sector in the Spotlight’ articles will promote different sectors.

**Engagement with small and medium sized businesses**

While 80% of apprentices are employed in the SME sector, the major growth in apprentices is in the retail sector. The SME sector in the UK represents a huge untapped potential market for apprenticeships but unlocking it requires far greater focus and resources. Whilst there are already strong links between training providers and SMEs it does not go far enough, and does not engage SMEs which are harder to reach. We therefore recommend that NAS engages local bodies such as LEPs and local Chambers of Commerce to target those companies. Equally, the Department must recognise that NAS will require some additional funding for this to be successful. We will monitor this area of activity closely and will expect NAS to publish quarterly reports on the number of new SMEs it has brought into the apprenticeship programme. (Paragraph 93)

**Recommendation 13** - That NAS engages local bodies such as Local Enterprise Partnerships and local Chambers of Commerce to target those companies. Equally, the Department must recognise that NAS will require some additional funding for this to be successful. We will monitor this area of activity closely and will expect NAS to publish
quarterly reports on the number of new SMEs it has brought into the Apprenticeship programme. (Paragraph 93)

The Government agrees that SMEs are a priority for investment and support and, as a result of the recent Holt Report, is taking a number of actions to make Apprenticeships more accessible to SMEs. So far these include enabling employers to place interim adverts (prior to approval) onto the Apprenticeships Vacancy system; establishing the National Skills Academies pilots to aggregate SME demand and improve transparency of HMG funding; and the introduction of standards for providers which expect SME leads from the NAS.

Work is also underway to develop better messaging to SMEs, to encourage key intermediaries to promote Apprenticeships to their SME clients and to develop a web tool to enable all employers, but particularly SMEs, to identify more easily the local training provision that best meets their needs.

Apprenticeship providers have recently received a new set of SME Service Standards explaining the service that they are required to provide and the feedback they must give the NAS on how they have managed SME referrals.

In addition, through the City Deals the NAS and the Skills Funding Agency are working with local bodies including LEPs and Chambers of Commerce and other employer representative bodies to boost awareness of Apprenticeship opportunities amongst SMEs and to offer additional support to help them take on apprentices. The NAS works closely with the 8 City Apprenticeship Hubs and provides them with multiple layers of support including, Apprenticeship Vacancy profiles, SME referrals and Apprenticeship Training Agency (ATA) development and AGE grants.

The NAS offers small employers support through its dedicated small employer team which provide help for up to 500 employers per week. Their Employer Commitment is about to be published setting out the service SMEs will receive from the NAS small employer team and training providers.

The NAS will also publish its internal SME support statistics alongside its service standards on the website apprenticeship.gov.uk in 2013. However, these are not classed as official ‘Further Education’ statistics.

Reducing bureaucracy

We note the recent announcements by the Department of measures to reduce bureaucracy, particularly for large businesses. However, we have heard that this has not been matched with action. Businesses still consider bureaucracy and the perception of ‘red-tape’ to be a major barrier to employing an apprentice. We recommend that more work is done. Specifically, we recommend that the attitudes and perception of employers, in terms of bureaucracy, are closely monitored by the Department. NAS must engage with businesses of all sizes specifically to hear how they could more easily engage with the scheme. It should report its findings as a matter of urgency. (Paragraph 99)
Recommendation 14 - That the attitudes and perception of employers, in terms of bureaucracy, are closely monitored by the Department. NAS must engage with businesses of all sizes specifically to hear how they could more easily engage with the scheme. It should report its findings as a matter of urgency. (Paragraph 99)

The Government shares the Committee’s emphasis on making Apprenticeships simpler for all employers to engage with. Following the Holt Review, the NAS is taking forward an extensive programme of work to simplify and improve access for SMEs, including the introduction of a new online employer tool and specific marketing aimed at supporting SME engagement; as well as work to reduce bureaucracy and simplify processes for employers of all sizes.

The annual Apprenticeship Evaluation Survey gathers data on employer perception, including on issues around bureaucracy from a wide range of employers and identifies areas of concern.

The NAS also surveys SMEs quarterly to ascertain their views on Apprenticeship engagement including bureaucracy. Larger employer concerns regarding bureaucracy are being addressed in the ‘Learning and Skills Improvement Service (SIS) simplification work’. A group of large employers oversee progress against the LSIS recommendations and meet quarterly with NAS and the Agency.

The CIPD 2012 trends survey found that only 10% of employers found Apprenticeships bureaucratic.

Alternative models to support SMEs

We have heard that a significant number of small and medium sized employers have struggled to engage with the apprenticeship programme. We are encouraged to hear about innovative delivery models designed to rectify this. We recommend that both Group Training Associations and Apprenticeship Training Agencies continue to be supported by NAS. However, care must be taken to ensure that the quality of learning experience is not jeopardised. We support NAS’s recent initiative to set up a Recognition process and National Register for ATAs and recommend that NAS is given formal responsibility for promoting ATAs. It is important that all alternative delivery models are actively monitored and NAS should assess the success of such models not only by the level of employer engagement but also by the quality of the apprentices’ actual learning and the subsequent conversion rate from such apprenticeships to full-time employment. (Paragraph 115)

Recommendation 15 - That both Group Training Associations and Apprenticeship Training Agencies continue to be supported by NAS. …It is important that all alternative delivery models are actively monitored and NAS should assess the success of such models not only by the level of employer engagement but also by the quality of the apprentices’ actual learning and the subsequent conversion rate from such Apprenticeships to full-time employment. (Paragraph 115)

The Government welcomes the Committee’s comments on the role of alternative delivery models. NAS will continue to support the development of high quality Apprenticeship Training Agencies (ATAs) and Group Training Associations (GTAs).
The NAS Small Business Team (SBT) which handles enquiries from SMEs are now referring those employers which are not currently in a position to employ an apprentice to a NAS recognised ATA, and the SBT are also referring SMEs to GTAs when and where appropriate. NAS are also developing a communications plan on how to further promote the services of ATAs and GTAs to small and medium sized businesses.

On quality assessment, NAS will collate information on ATA performance and quality via the ILR and ATA Survey to be conducted as a condition of ATA Recognition. This will help to draw a clearer picture of the contribution ATAs make to the wide Apprenticeship provision.

NAS and the Department will continue to work closely with GTA England to support the implementation of recommendations made in the 'Commission into GTAs', September 2012. These include a new definition and code of conduct for GTAs, a new accreditation process for GTAs and where appropriate expansion of the number of GTAs in England.

GTAs, like all other Agency contracted providers of Apprenticeship training are required to conform to the same set of quality measures which include Ofsted inspection, Agency Funding Rules and the NAS Quality Statement.

Skills Funding Agency funded Providers, not the ATAs, have ultimate responsibility for the quality of the Apprenticeship training and are assessed by the Skills Funding Agency to ensure they meet the standards of quality expected of them.

Current data systems do not allow for systematic monitoring of conversion rates into permanent employment. This is the case irrespective of the type of training provider used. However, some information in relation to this can be gleaned from Learner Destination Surveys. In addition the Government and the NAS recognise the particular interest in ATA conversion rates given the different employment arrangement, and the above mentioned work to monitor ATA performance will cover this.

We are encouraged to hear that private industry is introducing new models of training. Specifically, we have heard about the practice of large employers utilising and supporting their supply-chain to supplement their apprenticeship programmes. NAS has told us of its support and contact with large businesses and we recommend that, in its dealings with such businesses, it promotes the benefits of this model by encouraging large employers to support SMEs in their supply chain using apprenticeships. (Paragraph 118)

Recommendation 16 - Private industry is introducing new models of training. Specifically the Committee heard about the practice of large employers utilising and supporting their supply-chain to supplement their apprentice programmes. The Committee recommend that the NAS, in its dealings with such businesses, promotes the benefits of this model by encouraging large employers to support SMEs in their supply chain using Apprenticeships. (Paragraph 118)

The Government shares the Committee’s interest in the considerable potential for large employers to support Apprenticeships in their supply chains.
The NAS have requested that larger grant holding employers are allowed to draw down funding for the training of their supply chains—The Skills Funding Agency legal team are reviewing this option.

In addition the NAS has asked large employers to promote Apprenticeships to supply chains. A good example of this is Nissan UK who were asked to write to all the smaller employers they use in the North east to prompt them to consider recruiting apprentices.

NAS offers a full range of support to employers that are able to influence supply chains. This has included the provision of promotional materials and events as well as the funding of ‘over training’ programmes where employers have been funded to train more apprentices than they require and the establishment of sectoral Apprenticeship Training Agencies which offer employment options for smaller employers.

Also, the Employer Ownership Pilot (EOP), through which the Government is giving employers the opportunity to take greater ownership of the vocational skills agenda and encouraging innovation and new thinking, had already led to several projects which will promote Apprenticeship take-up amongst supply chains. We look forward to more ambitious bids for supply chain projects of projects involving groups of SMEs in Round 2.

**Government initiatives**

We support recent efforts by the Government to increase employer engagement through the ‘Employer Ownership Pilot’ and the ‘SME Incentive Bonus’. These initiatives are in their infancy and we do not wish to tinker with the content of either policy at this stage. However, over time they will need to prove higher levels of employer engagement and value-for-money. We recommend that clear criteria for success are published so that they may be objectively scrutinised and that full value-for-money reviews are conducted into both of these schemes after 18 months. (Paragraph 129)

*Recommendation 17 - That clear criteria for success [of EOP and Apprenticeship Grant for Employers] are published so that they may be objectively scrutinised and that full value-for-money reviews are conducted into both of these schemes after 18 months. (Paragraph 129)*

The Government published the prospectus of EOP on the UKCES website setting out the vision and assessment criteria of EOP. BIS is currently in the process of tending for the evaluation of the pilot, which will be developed over a five year period to allow for consideration of the employment and wage effects of the additional training. There will be a baseline report in Spring 2013, a training completion report in 2014, annual updates in 2015, 2016 and a final report with the full economic and qualitative assessment in 2017. In addition, the Skills Funding Agency will be providing ongoing monitoring data on number of learners, employers, skills level.

The Government has commissioned an independent evaluation of the first year of the Apprenticeship Grant for Employers, including a rigorous cost benefit analysis, and plans to publish this report in spring.
Recommendation 18 - We recommend that the Government encourages the employment of apprentices in its procurement contracts. While we concede that some flexibility is required (for example around the sector and nature of the work contracted), we recommend that Central Government, Local Government and other publicly funded bodies should seek to achieve at least one additional Apprenticeship for every £1m awarded through public procurement as a benchmark. We have been told by the TUC that this is current policy in some construction procurement arrangements. Furthermore, we recommend that the current recruitment practices of prospective contractors (in terms of apprentices) is a factor which is taken into positive consideration when the Government is considering bids for any public contract. (Paragraph 133)

In terms of using public procurement to incentivise apprenticeships, the Minister told us that he was determined to push this as far as possible “within the constraints of the law”. We recommend that in its response the Department sets out how it proposes to resolve any legal issues preventing the Government from attaching requirements for apprentices in major public procurement projects commissioned by itself, local government and publicly-funded bodies. (Paragraph 134)

Recommendation 19 - We recommend that in its response the Department sets out how it proposes to resolve any legal issues preventing the Government from attaching requirements for apprentices in major public procurement projects commissioned by itself, local government and publicly-funded bodies. (Paragraph 134)

Apprenticeships are central to ensuring that our workforce is equipped to help build economic growth and so anything we can do to promote them, including via public procurement, is to be encouraged. However, in order to avoid any unintended negative consequences, any requirements relating to Apprenticeships in public procurement contracts need to be flexible and proportionate, need to deliver good value, and must not be overly prescriptive. BIS, Department for Communities and Local Government (DCLG) and the Local Government Association are currently working on guidance to encourage best practice amongst local authorities in relation to Apprenticeship conditions in construction contracts and, once this has been tested, we will look to see if this can usefully be applied more widely.

Quality

Recommendation 20 - The burden on employers must always be a consideration when imposing such regulation on the industry. Overall, however, we agree with the bulk of evidence, that the balance between industrial burden and Apprenticeship quality in relation to employment criteria has been found successfully by the Government. (Paragraph 140)

The Government welcomes this finding, and agrees that this issue must be kept under review.

We support the introduction of statutory standards (SASE) and the improvement to quality that they appear to have brought to apprenticeships. However, 18 months after their introduction, it would be appropriate to properly examine their impact. We
therefore recommend that NAS reviews the impact of the implementation of the standards on training quality, regulatory burden and framework availability. We further recommend that it consults across sectors to assess the regulatory burden and suitability of the regime across the economy. (Paragraph 144)

Recommendation 21 - That NAS reviews the impact of the implementation of the standards (SASE) on training quality, regulatory burden and framework availability. We further recommend that it consults across sectors to assess the regulatory burden and suitability of the regime across the economy. (Paragraph 144)

There are now over 270 frameworks approved for funding covering over 3,000 job roles at Levels 2 to 4. Once a framework is approved for funding it is potentially available for any provider to deliver. Under freedoms and flexibilities we no longer make allocations against delivery of specific frameworks.

Since the introduction of SASE there are Higher Apprenticeship frameworks available at levels 4 and 5 with more being developed through the Higher Apprenticeship fund.

Success rates for SASE frameworks have continued to rise and the recent quality measures that have been implemented have sought to strengthen the implementation of SASE.

Given the Richard Review is under consideration—and no specific mention of SASE is made in the document—any further review of SASE and its implementation would need to consider the Government’s response to the Richard recommendations.

It is important that employees have functional skill levels of literacy and numeracy to match those of our international competitors. However, this should not disadvantage the ability of specific groups to access training and accreditation. To that end, we endorse the principle that transferrable and core skills should be part of apprenticeship framework. However, we recommend that the ‘functional skills’ regime be reviewed by the Department twelve months after their introduction. The Department should consult with industry to review the recruitment of apprentices and we recommend that it reports on whether the introduction of ‘functional skills’ has unfairly discriminated against any group of apprentices (for example those in a specific sector) from completing a framework. If it is proved to be so, we recommend that the Department works with industry to develop alternative models of providing such training. The development of functional skills should be a feature of, not a bar to, apprenticeships. (Paragraph 149)

Recommendation 22 - That the ‘Functional Skills’ regime be reviewed by the Department twelve months after their introduction. The Department should consult with industry to review the recruitment of apprentices and we recommend that it reports on whether the introduction of ‘Functional Skills’ has unfairly discriminated against any group of apprentices (for example those in a specific sector) from completing a framework. If it is proved to be so, we recommend that the Department works with industry to develop alternative models of providing such training. The development of Functional Skills should be a feature of, not a bar to, Apprenticeships. (Paragraph 149)
The NAS will continue to monitor the take up of Functional Skills within an Apprenticeship, including any impact on recruitment, success rates and the achievement of Functional Skills at Level 2 within Intermediate Apprenticeships.

The Skills Funding Agency has already made changes to the funding levels for Functional Skills English and maths in 2012–13 in response to detailed evidence from providers on the higher levels to teaching and assessment required for these more rigorous qualifications.

We have been cautioned that the learner experience is complex and hard to quantify. The Government has promised to improve access to objective and comparable information relating to training providers. We recommend the Department sets out its timetable for delivering this information. (Paragraph 153)

**Recommendation 23 - The Government has promised to improve access to objective and comparable information relating to training providers. We recommend the Department sets out its timetable for delivering this information. (Paragraph 153)**

The Government shares the Committee’s commitment to improving access to information. The Government collects and publishes on a consistent basis some of the key information employers and learners say they need to make choices. The FE Choices website (http://jechoices.skillsfundingagency.bi.gov.uk/Pages/home.aspx): enables users to search and compare provider ratings based on four indicators:

- Qualification Success Rates;
- Learner Destinations – Employment Rate;
- Learner Satisfaction; and
- Employer Satisfaction.

The Government is making this information more useful and accessible in a number of ways:

- Integrating providers’ FE Choices data with the Course Directory on the National Careers Service website to provide a one-stop shop for advice, information and comparative provider data. In April 2012, a direct link to each provider’s page was introduced on FE Choices from the Course Directory. From spring 2013, the provider’s data will be integrated into the search results on the Course Directory making it easier for the user.

- Work is being done with the FE sector on a voluntary initiative to improve the information available on providers’ own websites, which is due to be launched in March 2013. A standard template of core information will be available with a link to the FE Choices website so the user can compare with other providers.

- Government is publishing information at a more granular level wherever possible, for example about the course or subject as well as the provider. This will begin with the next release of Employer Satisfaction data in December 2012, followed by Learner Satisfaction data in February 2013 and Qualification Success Rates in spring 2013.
In addition, in response to the Holt Review, the NAS is currently developing an online tool to enable all employers to identify and access the most appropriate Apprenticeship training provision for their needs in real time.

While a minimum duration is not a substitution for a quality framework, we support the Department’s recent announcements of a minimum 12 month duration for all apprenticeships frameworks. However, we are concerned that this policy may have unintended consequences. We therefore recommend that the Government closely monitors this requirement and the impact on take-up of more talented apprentices (who may feel held back by the policy) and older learners (who may be dissuaded from training). (Paragraph 161)

**Recommendation 24 - That the Government closely monitors (The 12 month duration requirement) this requirement and the impact on take-up of more talented apprentices (who may feel held back by the policy) and older learners (who may be dissuaded from training). (Paragraph 162)**

The NAS working with the Skills Funding Agency will continue to monitor the minimum duration requirement as well as reviewing delivery timescales against those set by the framework developers. Appropriate intervention with providers will take place where the new requirements are not being met. The NAS will also monitor the time taken to deliver the main competency aim in relation to minimum duration times for the whole framework.

The Skills Funding Agency and the NAS monitors all aspects of the take-up and quality of Apprenticeships and will continue to take action to ensure that the Apprenticeships offer meets the needs of employers and learners.

The UK’s workforce should be given the opportunity to become as highly skilled as possible and we support the Government’s drive to increase the number of Higher and Advanced apprenticeships. However, the apprenticeship scheme must reflect the demands of sectors in terms of job roles and skills demanded. We recommend that the National Apprenticeship Service works actively to encourage progression with employers. We also recommend that the Government works with Sector Skill Councils to ensure that, while they remain rigorous, Higher and Advanced level Apprenticeships are accessible to all those who have the potential to complete them. Frameworks should be sufficiently flexible not to disqualify such apprentices from progressing. Specifically, the Department should review the appropriateness of framework requirements such as, for example, to have had management experience. (Paragraph 169)

**Recommendation 25 - We recommend that the National Apprenticeship Service works actively to encourage progression with employers. We also recommend that the Government works with Sector Skill Councils to ensure that, while they remain rigorous, Higher and Advanced level Apprenticeships are accessible to all those who have the potential to complete them. Frameworks should be sufficiently flexible not to disqualify such apprentices from progressing. Specifically, the Department should review the appropriateness of framework requirements such as, for example, to have had management experience. (Paragraph 169)**
The Government welcomes the Committee’s comments. The NAS actively promotes Advanced Level and Higher Apprenticeships to employers and learners.

NAS has consulted on the specification for Higher Apprenticeships and presented their recommendations to the Minister in December. The aim is to open up wider opportunities for progression within the Apprenticeships programme and a credible work based route into high level professional qualifications and occupations.

The NAS continues to quality assure all issued frameworks to ensure they meet the minimum requirements of SASE and that entry requirements are appropriate. The NAS will continue to monitor the number of apprentices that progress across the levels to understand how progression can be best supported within different sectors.

**Value for money**

The issue of additionality and deadweight loss is key to calculating the value-for-money of any publicly funded project. It is especially pertinent to the funding and provision of apprenticeships. While we were encouraged by the Department’s recent Research Paper and the Minister’s words on this subject, there is a need for more detailed analysis to be done to better quantify the issue. The Department’s own research bemoaned the lack of quality data and it is clear that a significant amount of money is being spent on areas where additionality has not been proved. We therefore recommend that the Government, as a matter of urgency, forms a clear strategy to rectify this through the collection and analysis of the necessary data. (Paragraph 181)

**Recommendation 26** - The Department’s own research bemoaned the lack of quality data and it is clear that a significant amount of money is being spent on areas where additionality has not been proved. We therefore recommend that the Government, as a matter of urgency, forms a clear strategy to rectify this through the collection and analysis of the necessary data. (Paragraph 181)

The Government welcomes the Committee’s comments and the NAS will work with BIS to build this work into the research and evaluation programme going forward.

We agree the importance of measuring and maximising the additionality of Apprenticeships. BIS analysts worked with the NAO to devise the best measurement tools using the data and methods available at the time.

Since the NAO review, the Department has published two studies (on its website), both of which suggest a high level of additionality:

Interviews with Apprenticeship employers suggested that adult Apprenticeship numbers would fall by 85% and 73% if public funding was removed and halved respectively (although some employers would switch to 16–18 year-old apprentices instead, assuming these remained fully-funded by government).

Analysis which compares the training in firms who do and do not engage in the Apprenticeship programme suggests that around 72% of apprentices would not receive any training in the absence of the publicly-funded programme.
The Department has commissioned further work to assess what further analysis can be done with existing data in order to generate robust estimates of additionality, to identify where the key gaps lie and to develop a strategy for filling these gaps going forward.

While we were encouraged by the progress made since the NAO’s recommendation to improve the targeting of public funding, it is clear that more work needs to be done. Transparency is key in the allocation of investment, particularly if some are to be given preference over others. It is especially important that fixed criteria for preferential funding are published and adhered to so that businesses and individuals have no doubt that the funding is fair, evidence based and attainable. The Minister and Department have been unambiguous that funding should be focussed on 16–24 year old apprentices and advanced (and above) frameworks. We welcome this clarity and, despite the recent Industrial Strategy, recommend that the Department now identifies which ‘growth sectors’ will benefit from focussed funding at a much more specific level. We further recommend that these sectors are reviewed annually to ensure that public funding is consistently being allocated to those areas where economic benefits are greatest. (Paragraph 193)

**Recommendation 27 - That the Department now identifies which ‘growth sectors’ will benefit from focussed funding at a much more specific level. We further recommend that these sectors are reviewed annually to ensure that public funding is consistently being allocated to those areas where economic benefits are greatest. (Paragraph 193)**

The Government and NAS continue to work closely with employers and sector organisations to support them to promote and deliver high quality Apprenticeships. BIS has announced that it is refocusing its growth efforts with a new Industrial Strategy to focus efforts on the sectors with the greatest potential to contribute to growth and competitiveness. A range of sectors are now working in partnership with Government to set out their strategies for growth. These will identify challenges and solutions to major skills issues, including how to maximise the role of Apprenticeships within those sectors.

The Government is currently considering whether and how best to support priority sectors through Apprenticeship funding. The needs of priority sectors will also be considered carefully in any future funding reforms.

Employers in key sectors will be encouraged to compete for funding through the Employer Ownership Pilot, with value for money being one key criterion for the award of funding.

We have heard that, despite fairly high levels of media scrutiny on the topic, some training providers continue to offer their services to employers without seeking employer contribution of any kind. This practice suggests either that the quality of training is being compromised in order to reduce costs or that too much public money is being spent on training that the employer should be funding. This practice poses a substantial risk both to the quality of training and the apprenticeship brand with apprentices and employers being the ultimate victims. We recommend that the National Apprenticeship Service, as a priority, produces a robust methodology for valuing employers’ in-kind contributions in the future. (Paragraph 200)
Recommendation 28 - We recommend that the National Apprenticeship Service, as a priority, produces a robust methodology for valuing employers’ in-kind contributions in the future. (Paragraph 200)

Current funding structures have supported the substantial expansion of the programme, with benefits assessed for individuals, employers and the wider economy and with strong returns for Government investment, as the NAO report has helped demonstrate (Published 1 February 2012).

Demand has risen most strongly for 19–24 and for older age groups, despite public funding reducing compared to 16–18 years olds, for whom 100% of the training cost is met.

In May 2012 BIS published ‘Employer Investment in Apprenticeships and Workplace Learning: The Fifth NET Benefits of Training to Employers Study’. This detailed an assessment of the costs and benefits to different types of business of employing apprentices, based on 80 case studies ranging across 8 sector areas. It illustrated how employer costs, benefits and timescales for return on investment vary by sector and circumstance. In addition the assessments have also provided a deeper understanding of the varying ways in which the programme is being used, including the different approaches to recruitment by age and other factors between sectors. “In kind” contributions such as through mentoring and additional supervision were also considered. The report is available at: http://www.bis.gov.uk/assets/biscore/further-education-skills/docs/e/12-814-employer-investment-in-apprenticeships-fifth-net-benefits-study

Future research will consider how to further extend evidence on the costs and benefits of Apprenticeships in the different circumstances of the employer and learner, including by sector, age and prior employment status.

Measures to support progression within individual sectors such as construction are currently being considered by the Government within the context of its industrial strategy work.

The NAS’s Account Management approach takes into consideration the contributions employers make in respect of supporting the delivery and uptake of Apprenticeships. At present there is no method of recording the in-kind contributions employers make. However, the NAS Account Managers do make a judgement call in respect of the employer contribution. Over the coming months the NAS will consider how best to make information and data, regarding in-kind employer contributions, more robust.

We further recommend both that employers be required to publish an annual statement of their contribution to the training provider, and that training providers be obliged to report a statement of contributions and costs to the SFA. This statement must include an account of the value of any in-kind contribution using the methodology proposed above. In addition, we recommend that an annual audit is conducted of a representative sample of employers and training providers to assess the scale of the problem. (Paragraph 201)

Recommendation 29 - That employers be required to publish an annual statement of their contribution to the training provider, and that training providers be obliged to report a statement of contributions and costs to the SFA. This statement must include an
account of the value of any in-kind contribution using the methodology proposed above. In addition, we recommend that an annual audit is conducted of a representative sample of employers and training providers to assess the scale of the problem. (Paragraph 201)

The Government notes the Committee’s comments, and share its emphasis on the importance of employer investment in Apprenticeships. However, in support of policies to cut bureaucracy we do not agree with requiring employers to publish their contribution, and would be concerned that this requirement could put employers off engaging with the programme.

The Government will continue to consider how best to maximise employer investment in Apprenticeships in any future funding reforms.

We are deeply concerned that both the Minister and the Skills funding Agency have adopted a hands-off approach in respect of the profit levels and value for money of training providers. We were particularly troubled that the Minister appeared unconcerned about value for money given the 36 per cent level of pre-tax profits achieved by Elmfield Training and the statement by the Chief Executive of Elmfield Training that the Government paid out too much money. We are encouraged that the Government is now more aware of these issues and has reviewed the rates to take account of efficiencies and economies of scale that allowed training providers to make substantial savings, and therefore excessive profits, from receiving a flat rate of public funding. We recommend that the Government takes a more active approach in the future and constantly reviews the profit levels of training providers as an indicator of potential risks to efficiency. (Paragraph 209)

Recommendation 30 - That the Government takes a more active approach in the future and constantly reviews the profit levels of training providers as an indicator of potential risks to efficiency. (Paragraph 209)

The Skills Funding Agency collects the annual financial statement of training providers as part of its risk management processes. Training providers may derive their income from different sources; however, where those financial statements imply that profits derive from Skills Funding Agency programmes are unusually high, the Skills Funding Agency will review delivery with the training provider to establish whether there is any risk to the efficient use of funding.

We are surprised that the Government, through the Skills Funding Agency, paid £40m for what was essentially an untested product. The quality of training providers is assessed by Ofsted and we recommend that such assessments be a pre-requisite for every provider who is bidding for more than £6 million of Skills Funding Agency money (which would have covered the top thirty contracts last year). Training providers must be incentivised to aspire to provide the best quality training. To that end, we recommend that quality training providers (i.e. those who receive grade 1 or 2 from Ofsted) must be first in line when it comes to allocation (and subsequent reallocation) of public money. (Paragraph 213)

Recommendation 31 - That quality training providers (i.e. those who receive grade 1 or 2 from Ofsted) must be first in line when it comes to allocation (and subsequent reallocation) of public money. (Paragraph 213)
The Skills Funding Agency allocates funds for Apprenticeship through an agreed allocations methodology to providers who are approved and on its register. Providers must be delivering to at least minimum levels of performance. When funds are reallocated in-year both financial performance and Ofsted grades are considered. For 2013–14 academic year, consideration is being given to whether the size of allocations should reflect more quality indicators such as Ofsted grades more closely.

While the practice appears to be widespread, we do not believe that it is desirable for training providers and awarding bodies to be owned by the same group or individuals. The Government should look critically upon this serious issue. To that end, we are encouraged that the regulator Ofqual is conducting a wide market review, which the Skills Funding Agency expects to include an assessment of the issues surrounding combined ownership of training providers and awarding bodies. We look to the National Apprenticeship Service and the Skills Funding Agency to work with Ofqual to ensure that this review is successful and comprehensively deals with this specific issue. We accept that the practice of joint ownership is not unusual but learner experience is key and should not be put in jeopardy by conflicts of interest. Robust mechanisms must be put in place to prevent any conflict of interest impacting the learning experience of the workforce. We recommend that, if the Ofqual review does not cover this, the SFA conducts a more focussed review on the impact of competing incentives, the risk to quality and brand perception arising from this practice. (Paragraph 218)

**Recommendation 32 - Robust mechanisms must be put in place to prevent any conflict of interest impacting the learning experience of the workforce. We recommend that, if the Ofqual review does not cover this, the SFA conducts a more focussed review on the impact of competing incentives, the risk to quality and brand perception arising from this practice. (Paragraph 218)**

If the current work undertaken by Ofqual in Healthy Markets does not pick this up, the Skills Funding Agency with agreement from the NAS, BIS and Ofqual, will take this forward.

A ‘task and finish’ group is being convened which is being led by the Skills Funding Agency and will including Ofqual, the NAS and BIS. The work will start with a review of those Awarding Organisations (predominately) where there are instances of vertical integration with a training arm in order to understand what protocols and, if necessary, sanctions can be put in place to ensure provision and the brand is not compromised.