

Modern apprenticeships



 AUDITOR GENERAL

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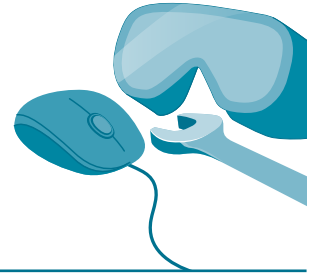
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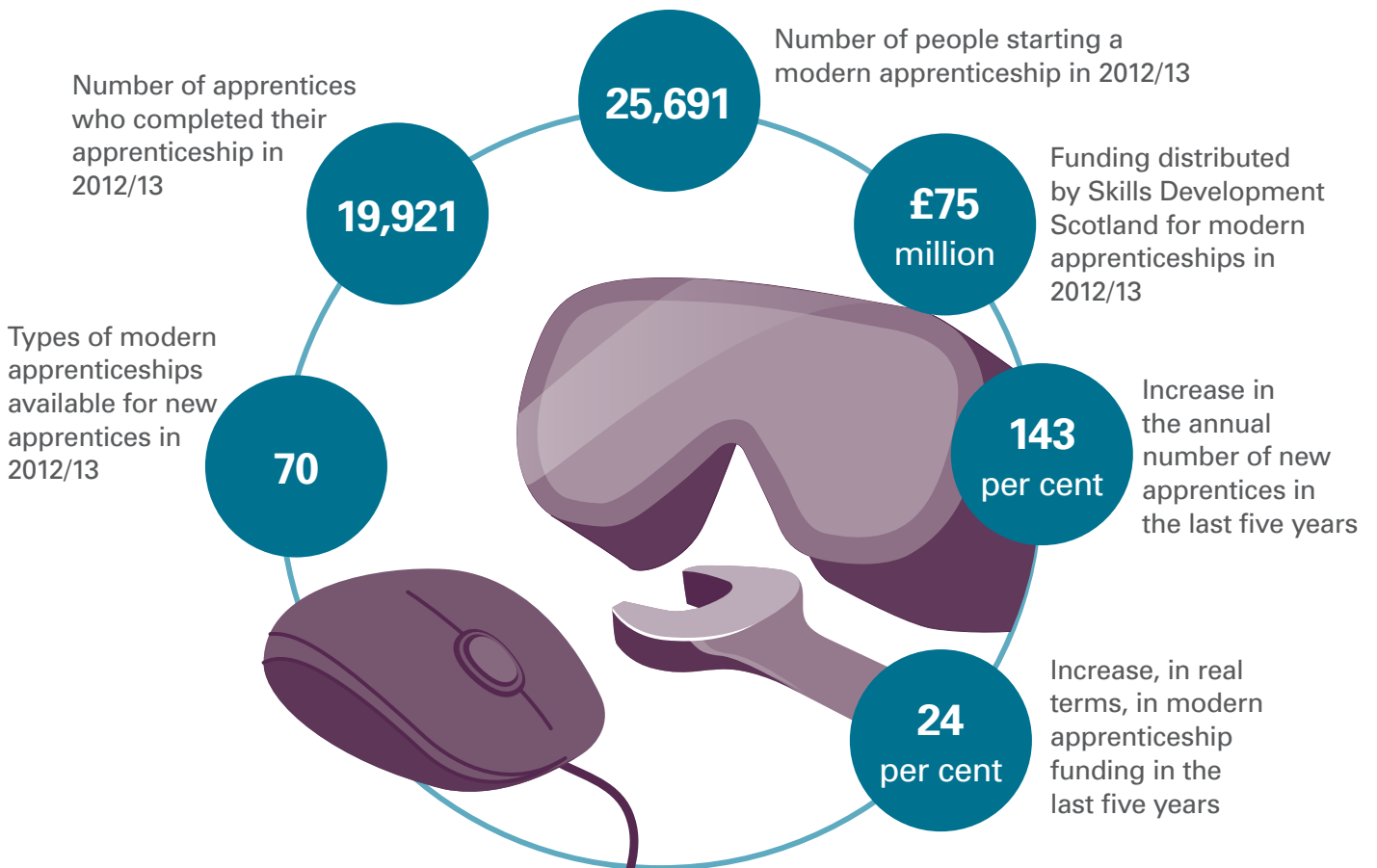
Exhibit data

When viewing this report online, you can access background data by clicking on the graph icon. The data file will open in a new window.

Summary



Key facts



Introduction

1. The Scottish Government's overall purpose is to 'create a more successful country, with opportunities for all of Scotland to flourish, through increasing sustainable economic growth'. Its national performance framework, *Scotland Performs*, contains a number of outcomes and indicators to measure progress against this purpose. The Scottish Government considers that developing the skills and employability of Scotland's workforce is essential for achieving economic growth. A number of its strategies, including the *Government Economic Strategy*, *Putting learners at the centre*, and *Skills for Scotland* outline the importance it attaches to developing a well-educated and trained workforce.^{1 2 3}

2. Young people in Scotland were particularly affected by the recent economic downturn. In 2007, before the recession, 12.4 per cent of people aged 16-24 were out of work.⁴ Since then the number of unemployed young people has increased, peaking at 90,400 (21.5 per cent) in 2011. The Scottish Government's 2012 youth employment strategy sets out the importance of modern apprenticeships in boosting youth employment and developing Scotland's workforce and economy.⁵

3. Modern apprenticeships refer to all apprenticeships approved by the Modern Apprenticeship Group (MAG) and which therefore qualify for public sector funding.⁶ MAG is responsible for the approval and removal of all modern apprenticeships and includes representatives from the public and private sector.⁷ Developed in the 1990s, modern apprenticeships offer people aged 16 and over the opportunity to develop their workplace skills and experience, and gain a qualification while in paid employment. There are around 70 types of modern apprenticeships available across four levels (2, 3, 4 and 5) which represent the level of Scottish Vocational Qualification (SVQ) that apprentices can achieve.⁸ Most combine on-the-job training by employers and classroom-based learning delivered by a training provider such as a college.

4. The Scottish Government has set a target to provide 25,000 new modern apprenticeship places each year from 2011/12 to 2015/16. In 2012/13, 25,691 people started a modern apprenticeship. As at 31st March 2013, a total of around 36,000 apprentices were in training.⁹ Since 2008/09, modern apprenticeship funding has grown by 24 per cent in real terms (ie, allowing for inflation) and now amounts to around £75 million a year.

About this audit

5. Skills Development Scotland (SDS) has been responsible for administering modern apprenticeships, on behalf of the Scottish Government, since April 2008. The last evaluation of modern apprenticeships was in 2006, when their administration was shared between Scottish Enterprise and Highlands & Islands Enterprise.¹⁰ Our audit focused on SDS's administration of modern apprenticeships and the funding it distributes to training providers for off-the-job training, assessments, or both of these. We did not examine the amount public sector bodies or private sector businesses spend on employing and training apprentices.

6. Our audit assessed whether modern apprenticeships provide value for money. Our objectives were to establish:

- modern apprenticeship costs and activity and roles of the organisations involved
- whether modern apprenticeships are clearly achieving their intended aims and objectives and the targets set for them
- how well modern apprenticeships are managed and if there is scope to make efficiencies.

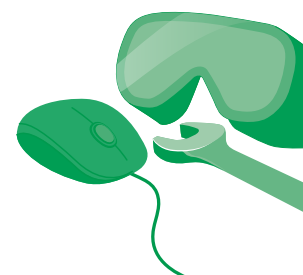
7. In January 2013, the Scottish Government established the Commission for Developing Scotland's Young Workforce (the Commission) to make recommendations to improve young people's transition into sustainable employment, including modern apprenticeships. It published its interim report in September 2013.¹¹ We did not examine the Commission's work in detail, but we refer to its findings and recommendations in this report, where relevant.

8. This report has three parts:

- **Part 1** provides background on modern apprenticeships, including the types of apprenticeships available and the bodies involved in administering them.
- **Part 2** examines performance and spending, including performance against Scottish Government targets and other priorities.
- **Part 3** focuses on SDS's role in administering modern apprenticeships, including quality assurance arrangements and awarding training contracts.

9. Appendix 1 sets out our audit methodology, which included: desk research; data analysis; focus groups and a survey of training providers; and interviews with public and private sector bodies, and apprentices. **Appendix 2** lists members of our advisory group who provided support and advice throughout the audit.

Key messages



- 1** The annual number of new apprentices has increased from around 10,600 in 2008/09 to around 25,700 in 2012/13. In 2011/12, the Scottish Government introduced an annual target of 25,000 new modern apprenticeship starts, which SDS has achieved in each of the last two years. SDS is also performing well against the Scottish Government's other modern apprenticeship priorities, including improving achievement rates and maximising apprenticeship places for 16-19-year-olds and at higher levels. These are significant achievements due to challenging economic circumstances and because SDS depends on employers' demand for apprentices.
- 2** Between 2008/09 and 2012/13, the Scottish Government's annual spending on modern apprenticeships, through SDS, increased from around £60 million to £75 million in real terms (that is, allowing for inflation). There are greater costs associated with achieving the Scottish Government's apprenticeship priorities. This makes it important for SDS to continue to monitor the financial sustainability of meeting the 25,000 start target within current budget limits.
- 3** The Scottish Government's 2007 skills strategy states the aim of modern apprenticeships is economic development, through enabling individuals to develop skills while in paid employment. The Scottish Government has set various priorities for modern apprenticeships but existing performance measures do not focus on long-term outcomes, such as sustainable employment. This means it is difficult to measure their long-term contribution to national outcomes. More specific long-term aims and objectives, along with information on their benefits and appropriate outcome measures, would make it easier to assess the extent to which modern apprenticeships provide value for money. It would also help direct funding in ways that offer the best value to individuals, employers and the economy.
- 4** SDS administers modern apprenticeships well although this is complex for various reasons, including the number of organisations involved and the uncertainty of employer demand. Administration of modern apprenticeships could be improved, for example:
 - SDS's contracting process is time-consuming and it could share more information with training providers about how it awards contracts.
 - There is scope to improve monitoring and quality assurance arrangements to ensure training is delivered to a high standard.
 - The role of contribution rates (the funding SDS pays training providers for each apprentice's training) in influencing employers' recruitment plans is not clear. By understanding this better, SDS could direct funding to encourage more employers to take on apprentices.

Recommendations

We make a number of recommendations intended to help improve the administration of modern apprenticeships. The Scottish Government and SDS should consider these as part of their response to the findings of the Commission for Developing Scotland's Young Workforce's.

The Scottish Government, working with Skills Development Scotland, should:

- confirm that its overall aim for modern apprenticeships is still valid and develop specific objectives in support of this. These should be publicised to all organisations involved in their delivery, and to employers and apprentices
- develop appropriate outcome-based measures to assess the long-term benefits of modern apprenticeships, such as sustainable employment and increased earnings, and publish performance information against these
- review the long-term benefits of modern apprenticeships and ensure that funding is directed to those which demonstrate the best value for individuals, employers and the Scottish economy
- work with awarding bodies and SQA Accreditation to improve quality assurance arrangements. This should include formalising arrangements to share information, including good practice, and agreeing who is responsible for acting on and reporting any concerns about training provider performance
- further develop IT systems to capture and share education and training data across relevant public bodies and to help minimise duplication.

Skills Development Scotland should:

- implement the results of its contribution rates review, which includes monitoring the impact of any changes on employer and training provider demand, and on the value for money achieved
 - review its contracting and apprenticeship allocation processes, which includes improving transparency and developing baseline costs to determine the potential efficiencies of moving to three-year contracts with training providers
 - monitor funding for higher levels of apprenticeships and those in key sectors, to assess affordability within current budgets limits, particularly if the Scottish Government decides to increase its new starts target
 - target specific groups of employers to raise awareness of the operation and benefits of apprenticeships and to encourage them to take on apprentices. This should be focused on businesses in areas of low employment and those in the key economic growth sectors where appropriate
 - in conjunction with other partners, including schools and industry leadership groups, better promote the value of modern apprenticeships to young people, parents and teachers to encourage greater participation by young people
 - develop its improvement plan to take account of the recommendations in this report, prior to initiating the 2015/16 contracting process.
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Part 1

Background



Key messages

- 1** Modern apprenticeships offer employment, training and qualifications across a wide range of occupations. The Scottish Government considers that they play an important role in boosting youth employment and in developing the economy.
- 2** The numbers, types and levels of modern apprenticeships available have increased over the last ten years. Apprenticeships are flexible and training is delivered in a number of ways to meet the needs of individuals and employers.
- 3** SDS is largely responsible for administering modern apprenticeships, and it works with a large number of organisations to develop and deliver them.

A number of Scottish Government strategies outline the importance of a well-educated and skilled workforce

10. The Scottish Government considers that developing the skills and employability of the workforce is crucial to achieving its overall purpose of sustainable economic growth. Its national performance framework, *Scotland Performs*, sets out a number of national outcomes and indicators to measure progress against this purpose.¹² One of the national outcomes is 'to realise our full economic potential with more and better employment opportunities for our people'. A number of Scottish Government strategies also outline the importance it attaches to developing a well-educated and trained workforce. For example:

- The *Government Economic Strategy* prioritises learning, skills and wellbeing as important means of developing the economy.
- *Skills for Scotland: A Lifelong Skills Strategy*, and its refresh in 2010, set out how policies on skills and training will be developed in order to improve employment opportunities and accelerate economic recovery.¹³
- *Putting learners at the centre* stresses the importance of aligning learning and skills with the needs of employers.
- *Opportunities for all* makes a commitment to offer a place in learning or training to every 16-19-year-old in Scotland.¹⁴

apprenticeships provide opportunities for people to develop skills and gain qualifications across a wide range of jobs

- *Working for Growth* sets out how the government, along with other providers of employability services, will work together to tackle unemployment. It sets out where apprenticeships are placed, along with other support and activities, in the strategic skills pipeline.¹⁵

11. In addition, the Scottish Government's youth employment strategy highlights the importance of modern apprenticeships in boosting youth employment and developing Scotland's workforce and economy. Apprenticeships offer individuals aged 16 and over the opportunity to gain a qualification while in paid employment, through a combination of workplace training and, if required, off-the-job learning.

Apprenticeships offer qualifications and employment opportunities across a wide range of occupations

12. Modern apprenticeships were developed in the 1990s and were mainly available in traditional industries such as construction or plumbing. Since then the number, types and levels of modern apprenticeships have increased. In 2012/13, there were 70 types of modern apprenticeships available across a range of occupations including accounting, plumbing, hospitality and engineering.¹⁶

13. In 2012/13, 25,691 people started a modern apprenticeship. The highest number of new apprentices (3,357) was in the construction sector and the ten apprenticeships with the highest number of new starts accounted for 76 per cent of all new apprentices ([Exhibit 1](#)).

Exhibit 1

Top ten apprenticeships by new apprentice start numbers, 2012/13

Three-quarters of all apprentices started on just ten types of apprenticeships.

Modern apprenticeship	Number of new apprentices and percentage of total starts	
Construction (and related) ¹	3,357	(13%)
Hospitality	3,230	(13%)
Business and Administration	2,062	(8%)
Retail	2,013	(8%)
Freight Logistics	1,844	(7%)
Health and Social Care	1,668	(6%)
Customer Service	1,498	(6%)
Engineering	1,429	(6%)
Food Manufacturing	1,212	(5%)
Children's Care, Learning and Development	1,139	(4%)
Total	19,452	(76%)


Note: 1. This category includes a range of apprenticeships, for example, various types of construction (including building, technical and specialist), plumbing and electrical installation apprenticeships.

Source: Audit Scotland analysis of SDS data, 2012/13

14. There are four levels of modern apprenticeships (2, 3, 4 and 5) which represent the level of SVQ that an apprentice can achieve and the job that an individual does. Originally, modern apprenticeships were mainly available at SVQ level 3. SVQ level 2 apprenticeships were introduced in 2009/10 in response to employer demand and to replace the Skillseekers training programme.¹⁷ Level 4 and level 5 apprenticeships were later introduced to give employers the opportunity to increase the skills of their workforce to a more advanced level. A level 5 apprenticeship is more likely to be undertaken by someone in a more senior job role.

15. The content of individual modern apprenticeships is known as a framework. Frameworks are determined through industry and employer consultation, and consist of the following mandatory and optional components:

- **Qualifications:** each framework must set out the qualification that apprentices will aim to achieve. Qualifications are referred to as 'mandatory outcomes' on frameworks.
- **Mandatory enhancements:** additional learning or qualifications that apprentices must complete for specific jobs within a sector.
- **Essential skills:** skills that employers consider to be essential for the workplace and which apprentices must achieve. These are referred to as 'work place core skills' and 'career skills' on frameworks.
- **Optional content:** additional components (for example, short courses) that employers may require their apprentices to complete. Optional content is referred to as 'optional outcomes' on frameworks.

16. Qualifications and essential skills on a framework are included on the Scottish Credit and Qualifications Framework (SCQF). The SCQF brings together all mainstream Scottish qualifications to show how they relate to one another. It gives each qualification credit points that show how much learning has been achieved (one credit equals ten hours), and a level (from 1 to 12) to show how demanding the learning is. Apprenticeships are included on the SCQF at levels 5 to 12. In future, all apprenticeships will be classified by their SCQF level, however in this report we refer to the SVQ levels (2, 3, 4 and 5) as this is how SDS data are currently recorded. [\(Exhibit 2, page 12\)](#) provides an overview of how different levels of frameworks vary. Our report supplement [A guide to skills and qualifications on Scottish apprenticeships \(PDF\)](#)  provides more information on the different components that are included on frameworks and sets out details of the frameworks that are available at each of the four apprenticeship levels.



17. Apprenticeships are flexible which means that they can be tailored to meet the needs of different employers and individuals. There are no set timescales for completing an apprenticeship and they typically take from around six months to three years to complete. This depends on the individual, the employer, the content and level of the apprenticeship, and the amount of training involved:

- More traditional apprenticeships, for example construction and engineering, include a significant amount of classroom-based learning delivered on a block-release basis by a training provider, and can take up to three years to complete.

Exhibit 2

Apprenticeship frameworks

The content of an apprenticeship varies depending on the level and job role.

Level	② (Modern apprenticeships)	③ (Modern apprenticeships)	④ (Technical apprenticeships)	⑤ (Professional apprenticeships)
Qualification 	SVQ or CBQ		HND or PROFESSIONAL QUALIFICATION or SVQ / CBQ	PROFESSIONAL QUALIFICATION or SVQ / CBQ
SCQF level	② SCQF 5 ③ SCQF 6/7		SCQF 8/9	SCQF 10/11/12
Examples of equivalent level qualifications	SCQF 5 = Standard Grade (Credit) SCQF 6 = Higher SCQF 7 = Advanced Higher		SCQF 8 = Diploma SCQF 9 = Ordinary Degree	SCQF 10 = Honours degree SCQF 11 = Masters degree SCQF 12 = Doctoral degree
Mandatory enhancements	Additional components may be added to the main qualification if this is appropriate for the sector, necessary for specific job roles and based on employer demand			
Essential skills for the workplace 	Workplace core skills <ul style="list-style-type: none"> • Communication • Numeracy • Information and communication technology • Problem solving • Working with others 		Career skills <ul style="list-style-type: none"> • Business administration • Management, including business continuity and governance • Enterprise • Customer service 	Career skills <ul style="list-style-type: none"> • Business administration • Management, including business continuity and governance • Enterprise • Customer service
SCQF level	② SCQF 4 ③ SCQF 5		A total of 15 SCQF credits, which must include units at SCQF level 7 or above	A total of 20 SCQF credits, which must include units at SCQF level 8 or above
Optional content	Additional learning that is appropriate for the job role, for example: <ul style="list-style-type: none"> • Optional units from a relevant vocational qualification • Short courses • Professional qualifications • Languages 			

SVQ Scottish Vocational Qualification
CBQ Competency Based Qualification

HND Higher National Diploma
SCQF Scottish Credit and Qualifications Framework

- Some apprenticeships, for example customer services, can be delivered entirely in the workplace by the employer and tend to be completed more quickly.

Many organisations are involved in the design and delivery of modern apprenticeships

18. The Scottish Government is responsible for setting the strategic objectives and priorities for modern apprenticeships. Since SDS was set up in April 2008, it has been responsible for implementing the government's priorities and administering the public sector funding for modern apprenticeships. Many other organisations are involved in designing and delivering apprenticeships. These include training providers such as colleges and private sector providers, Sector Skills Councils (SSCs), awarding bodies, the awarding bodies' regulator (the distinct, autonomous arm of the Scottish Qualifications Authority (SQA), known as SQA Accreditation) and employers ([Exhibit 3, page 14](#)).

19. Eighteen SSCs lead the design and development of apprenticeship frameworks. They are responsible for ensuring that appropriate frameworks are in place to meet employer needs in their sector.¹⁸ This can involve designing new frameworks, updating existing frameworks or recommending the removal of frameworks that are no longer required. SSCs work with various awarding bodies, including SQA and City & Guilds, to design and review the qualifications that frameworks include.

20. SSCs submit apprenticeship framework proposals and updates to the Modern Apprenticeship Group (MAG) for approval. The Scottish Government chairs MAG, which also includes representatives from SDS, Colleges Scotland, SQA Accreditation, the Scottish Training Federation, the Scottish Trades Union Congress and SSC Qualifications Group. For apprenticeship frameworks to be approved, SSCs must demonstrate that:

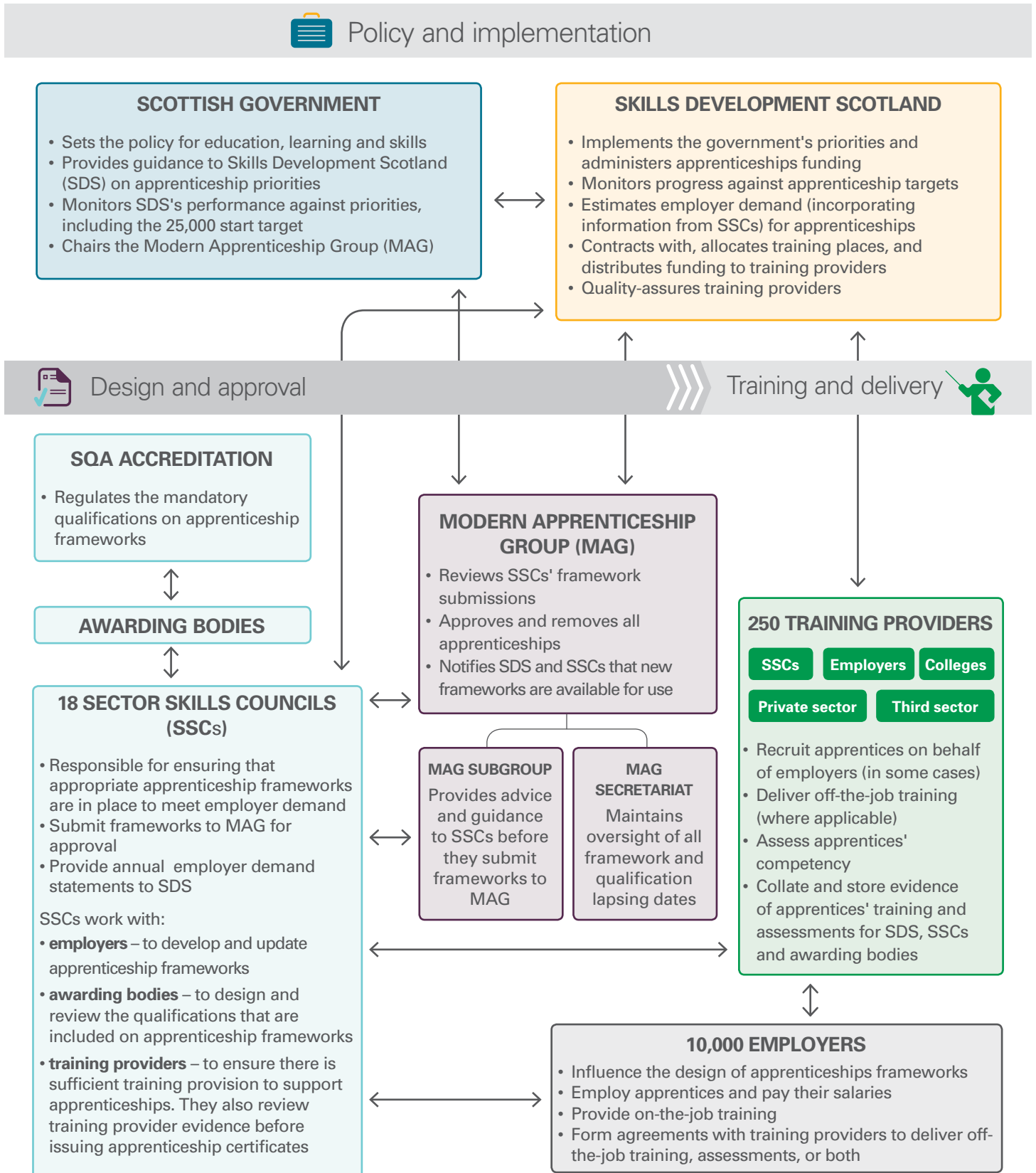
- there is a need for the apprenticeship
- a broad range of employers in their sector have been consulted
- opportunities and progression routes exist
- qualifications on the apprenticeship framework are up to date and relevant.

21. SDS contracts annually with around 250 training providers to deliver modern apprenticeship training and assessments of apprentices' competency. The size of training providers' contracts varies significantly. In 2012/13, around 15 per cent of training providers were awarded contracts to train, or assess, ten or fewer apprentices, while 11 per cent were awarded contracts for over 250 apprentices. The highest number of training places awarded to a single provider was for 1,200 apprentices. Training providers may be colleges, private or third sector training providers, employers or SSCs. Their role depends on the method of training delivery that employers prefer, and that is appropriate for each framework. For example, in cases where modern apprenticeship training is entirely work-based, the training provider usually has an assessor-only role and visits the apprentice at their place of work to assess their competency.

Exhibit 3

Organisations involved in modern apprenticeships

SDS works with several organisations to administer modern apprenticeships.



The Commission for Developing Scotland's Young Workforce makes recommendations for improving modern apprenticeships

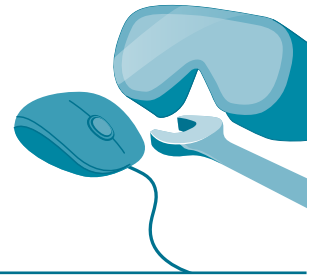
22. The Scottish Government established the Commission for Developing Scotland's Young Workforce in January 2013 to make recommendations to improve young people's transition into sustainable employment, including modern apprenticeships. Its interim report, published in September 2013, contains a number of recommendations for improving modern apprenticeships, including:

- Apprenticeships should align with the skills required to help the economy to grow.
- The Scottish Government should consider a carefully managed expansion of the annual number of modern apprenticeship starts, if employers can be encouraged to offer significantly more good-quality apprenticeships. This growth should focus on apprenticeships at level 3 and above and on 16-24-year-olds.
- Different levels of apprenticeships should be clearly branded. Progression routes to levels equivalent to higher education qualifications should be introduced to help increase the status and value of apprenticeships.
- A national *Access to Apprenticeships* programme should be developed to support young people who leave school with few or no qualifications.
- An industry-led quality improvement regime should be introduced to oversee the development and promotion of modern apprenticeships.
- Education Scotland should have an extended remit, in response to gaps in the quality assurance and improvement process, to include inspecting modern apprenticeship training.
- An online apprenticeship application system should be developed for employers and prospective apprentices to increase access to modern apprenticeships.

23. The Scottish Government is currently considering how to respond to the Commission's interim recommendations. The Commission's next phase of work will focus on equalities in education and how better to work with employers. It plans to report its findings in the second quarter of 2014. We did not examine in detail the Commission's work to date, but we refer to its interim findings and recommendations in the rest of this report where relevant.

Part 2

Performance and spending



Key messages

- 1 In 2011/12, the Scottish Government introduced an annual target of 25,000 new apprenticeship starts, which SDS has achieved in each of the last two years. The annual number of people starting a modern apprenticeship has more than doubled, from around 10,600 in 2008/09 to around 25,700 in 2012/13.
- 2 SDS is performing well against the Scottish Government's modern apprenticeship priorities. In 2012/13, it allocated 50 per cent of new start places to 16-19-year-olds and almost 60 per cent of new starts were at level 3 and above. The number of new apprenticeship starts in key sectors has increased by two-thirds since 2009/10. The proportion of people completing their apprenticeship has also increased, from 67 to 77 per cent over the last five years.
- 3 Public spending on apprenticeships has increased by 24 per cent in real terms (ie, allowing for inflation) from £60 million in 2008/09 to just under £75 million in 2012/13. Increasing funding for 16-19-year-old apprentices and apprenticeships at higher levels makes it important for SDS to continue to monitor the financial sustainability of meeting the 25,000 start target within current budget limits.
- 4 It is not clear to what extent contribution rates for different apprenticeships reflect the cost of training or influence employer recruitment decisions. There has been little change in the level of contribution rates over the last ten years. SDS has recently completed a review of these and is piloting revised contribution rates for 14 frameworks in 2014/15.
- 5 The Scottish Government's 2007 skills strategy states the aim of modern apprenticeships is economic development, through enabling individuals to develop skills while in paid employment. The Scottish Government has set various priorities for modern apprenticeships but existing performance measures do not focus on long-term outcomes, such as sustainable employment. This means it is difficult to measure their long-term contribution to national outcomes. More specific long-term aims and objectives, along with information on their benefits and appropriate outcome measures, would make it easier to assess the extent to which modern apprenticeships provide value for money. It would also help direct funding in ways that offer the best value to individuals, employers and the economy.

more than
25,000 people
started an
apprenticeship
in 2012/13

SDS has achieved the Scottish Government's target of 25,000 new apprenticeships in each of the last two years

24. The Scottish Government's main apprenticeship target is to provide 25,000 new apprenticeships each year from 2011/12 to 2015/16. All apprentices undertaking a modern apprenticeship must be employed, which means that the number of people starting an apprenticeship is largely determined by employers and economic conditions. For this reason, the Scottish Government does not consider it appropriate to set many specific targets for modern apprenticeships. The Scottish Government told us that the 25,000 starts target was based on anticipated demand from employers and SDS's previous performance against start numbers. But it is not clear if there was a detailed assessment of the number and types of apprenticeships that were required to meet employers' demand.

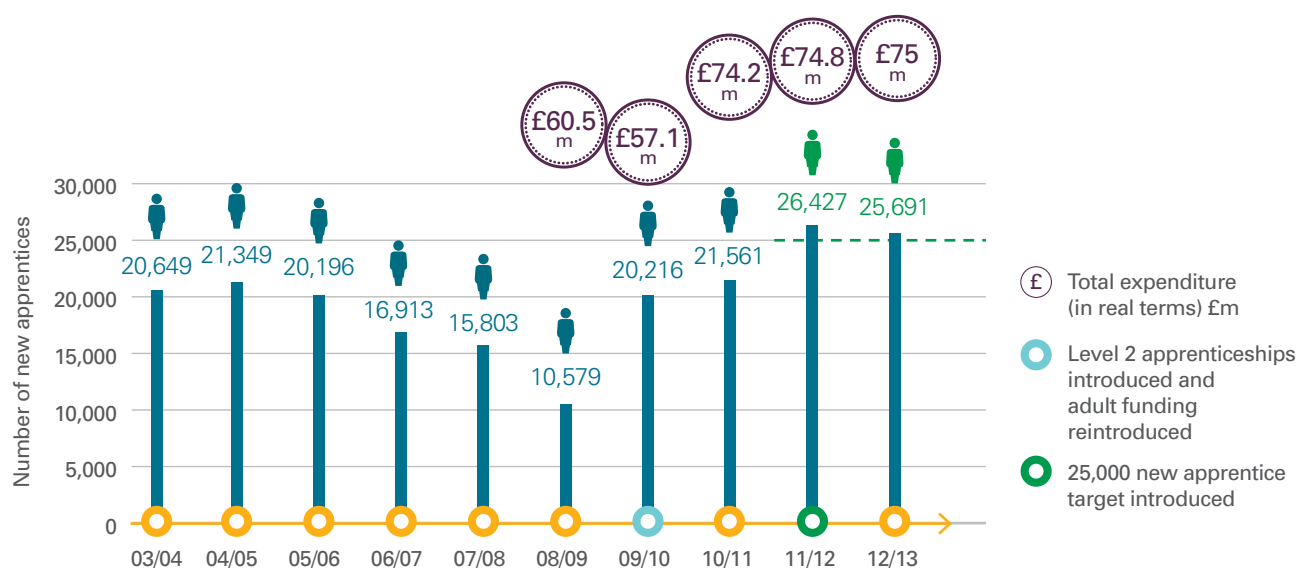
25. The number of people starting a modern apprenticeship has fluctuated over the last ten years, from a low of 10,500 in 2008/09 to over 25,000 in 2011/12 and 2012/13 ([Exhibit 4](#)). The recession, a stagnant labour market and the withdrawal of funding for people aged 25 and over contributed to a decline in the number of apprenticeships between 2003/04 and 2008/09. Apprenticeship numbers have since increased following:

- the introduction of level 2 frameworks in 2009/10
- the reintroduction of funding for older apprentices in 2009/10 (This was for key sectors only. These are set out in [paragraph 29](#).)
- the introduction of the 25,000 start target in 2011/12.

Exhibit 4

The annual number of people starting a modern apprenticeship, 2003/04 to 2012/13

The annual number of new apprentices has increased since 2008/09.



26. Between 2008 and 2011, the Scottish Government provided additional financial incentives for employers in response to the economic downturn. This included funding to safeguard an apprentice at risk of becoming redundant or to take on an apprentice who had been made redundant by another employer.¹⁹

27. Although some high-level information on apprenticeship numbers is available from 2003/04, information on spending is available only from 2008/09.²⁰ Over the last five years, SDS spending on modern apprenticeships has increased by 24 per cent in real terms, compared to a 143 per cent increase in the annual number of new apprenticeships and a 35 per cent increase in the total number of apprentices in training in any one year. As a result, the average spending per apprentice in training fell in real terms, from around £2,300 in 2008/09 to £2,100 in 2012/13.²¹ The main reason for this is an increase in apprenticeships which attract lower contribution levels. We discuss this in more detail later in this chapter.

SDS is performing well against the Scottish Government's modern apprenticeship priorities

The Scottish Government requires SDS to prioritise modern apprenticeships for young people and key sectors

28. Scottish Enterprise commissioned an external evaluation of modern apprenticeships in 2006. The evaluation found that greater value from public funding was achieved from:

- 16-19-year-olds rather than older apprentices
- apprenticeships which tend to take longer to complete, such as construction, engineering and manufacturing
- apprenticeships in key sectors, which we list below.

29. These findings, along with rising levels of youth unemployment, have led to the Scottish Government asking SDS to prioritise apprenticeship places for young people aged 16-24. The Scottish Government requires SDS to:

- allocate at least 50 per cent of apprenticeship start places each year to 16-19-year-olds, and 70 per cent to 16-24-year-olds
- prioritise apprenticeships at level 3 and above, in the expectation that higher-level skills make a greater contribution to a well-educated and trained workforce
- target key sectors. These include most of the key economic growth sectors set out in the *Government Economic Strategy* (creative industries, energy, financial and business services, hospitality and tourism, food and drink, and life sciences). They also include construction, automotive, transport and logistics, and engineering. In particular, the Scottish Government has set SDS a target to start 500 new apprentices a year in the energy and low-carbon sectors
- address the gender imbalance which exists in certain sectors, such as construction, and health and social care
- continue to increase the number of apprentices who complete their apprenticeship.

30. SDS aims to address each of these priorities when allocating apprenticeship places. But it has no specific targets for each priority, except for the allocation of places to young people and the energy and low-carbon industries. This means it is difficult for SDS to know which of the Scottish Government's priorities are of greater importance and whether it is achieving the correct balance between the various priorities.

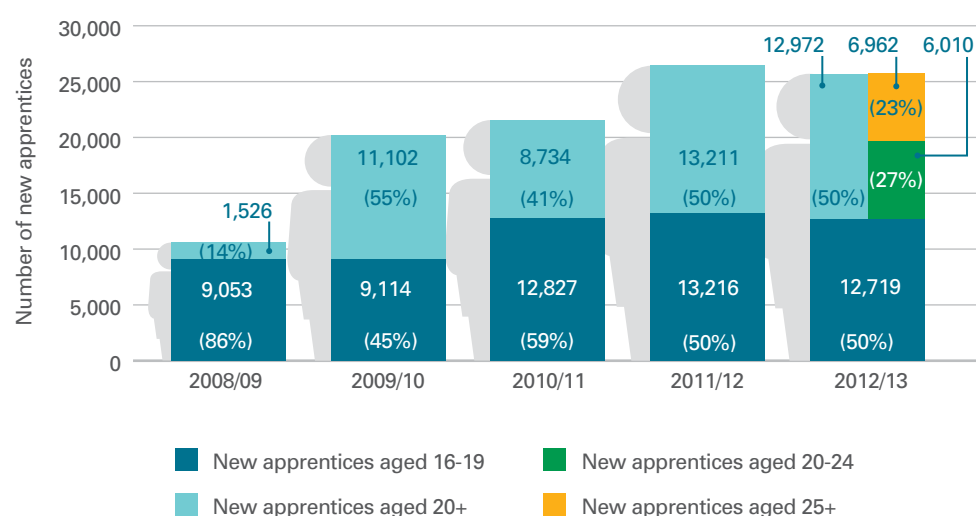
Half of new apprentices are aged 16-19

31. SDS has achieved the Scottish Government's priority to allocate 50 per cent of new apprenticeships to the 16-19-year-old age group each year since 2010/11 ([Exhibit 5](#)). In 2012/13, 50 per cent of new apprentices were in this age group. Prioritising places for 16-19-year-olds has resulted in a 40 per cent increase over the last five years in the annual number of people in this age group starting an apprenticeship. This has risen from 9,053 in 2008/09 to 12,719 in 2012/13. SDS also achieved its start target for 16-24-year-olds, with 77 per cent of new apprenticeship places allocated to this age group in 2012/13.

Exhibit 5

The number and percentage of people starting a modern apprenticeship by age, 2008/09 to 2012/13

The number of people starting an apprenticeship in the 16-19-year-old age group has increased.



Note: Separate figures for apprentices aged 20-24 and 25+ are available only from 2012/13.

Source: Audit Scotland analysis of SDS data

32. SDS reports that it has been challenging to allocate at least 50 per cent of start places to the 16-19-year-old age group. Employers are less likely to recruit a young person in a recession and more young people are being encouraged to stay on at school. Some jobs also have age restrictions, so it is not always possible for a 16-19-year-old to start certain apprenticeships. For example,

licensing rules require individuals to be at least 18 years old to serve alcohol, so certain hospitality apprenticeships are not suitable for 16-17-year-olds.

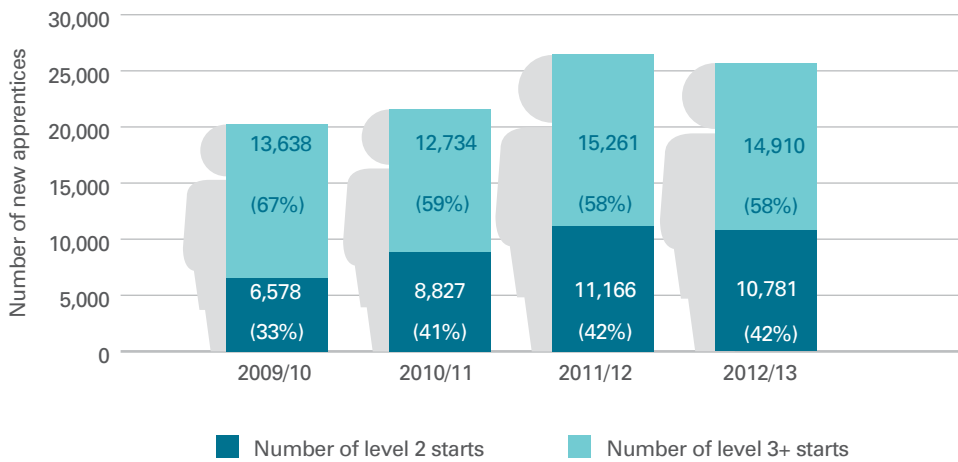
More people are starting modern apprenticeships at level 3 and above although there has been a larger increase in the number of level 2 apprenticeships since 2009/10

33. The annual number of people starting apprenticeships at level 3 and above has increased by nine per cent in the last four years, from 13,638 in 2009/10 to 14,910 in 2012/13. Over the same period, the annual number of level 2 apprenticeship starts increased by 64 per cent, from 6,578 in 2009/10 to 10,781 in 2012/13. As a result, the overall percentage of apprenticeship starts at level 3 and above fell from 67 per cent in 2009/10 to 58 per cent in 2011/12 and 2012/13 (**Exhibit 6**). SDS reports that it is challenging to prioritise apprenticeship starts at level 3 and above while also meeting the 50 per cent start target for 16-19-year-olds. This is because higher levels of apprenticeships, particularly levels 4 and 5, are more likely to be undertaken by older people with more work experience.

Exhibit 6

Number and percentage of people starting a modern apprenticeship by level, 2009/10 to 2012/13

The number of people starting an apprenticeship at level 3 and above has increased.



Source: Audit Scotland analysis of SDS data

34. The Commission for Developing Scotland’s Young Workforce recommends that any future growth in apprenticeship numbers should focus on level 3 and above. However, employers and training providers told us there is a need for level 2 apprenticeships for some people, and for particular jobs. For example, 60 per cent of apprentices in the hospitality sector are doing a level 2 apprenticeship because employers consider this is more appropriate for the job role. The availability of level 2 apprenticeships also helps to widen participation for younger people. For example, in 2012/13 over 50 per cent (5,700) of level 2 apprenticeships were started by 16-19-year-olds. Level 2 apprenticeships also make a considerable contribution to the Scottish Government’s annual target of

25,000 new apprenticeships, accounting for 42 per cent of new apprenticeship starts in the last two years.

More people are starting modern apprenticeships in key sectors

35. The estimated number of new apprentices undertaking an apprenticeship in key sectors (ie, those identified by the Scottish Government as a priority for apprenticeship funding) has increased by two-thirds in the last four years, from around 8,500 in 2009/10 to around 13,800 in 2012/13.²² SDS allocated 53 per cent of apprenticeship places to key sectors at the start of the 2012/13 contracting year. At the end of the year they accounted for 51 per cent of all new apprenticeship starts. However, there were fewer apprenticeships in the Scottish Government's key economic growth sectors (ie, those sectors identified in its economic strategy as having the greatest potential for growth). These accounted for 22 per cent of all new apprenticeship starts in 2012/13.

36. For most key sectors and key economic growth sectors, there was little difference between the number of apprenticeship places that SDS allocated at the start of the 2012/13 contracting year and the final uptake of apprenticeship places at the end of the year ([Exhibit 7, page 22](#)). The main exceptions were the energy, creative industries and automotive sectors. Some of the key economic growth sectors had relatively small numbers of apprentices, for example 21 people started a modern apprenticeship in the life sciences sector. SDS told us that some employers traditionally prefer to employ graduates in the key economic growth sectors as apprenticeships are not as well established as they are in more traditional sectors. The Commission for Developing Scotland's Young Workforce has recommended that any future growth in the number of apprenticeships should be targeted in sectors that demand a higher level of skills which will drive economic growth. This includes frameworks with a focus on science, technology, engineering and maths.

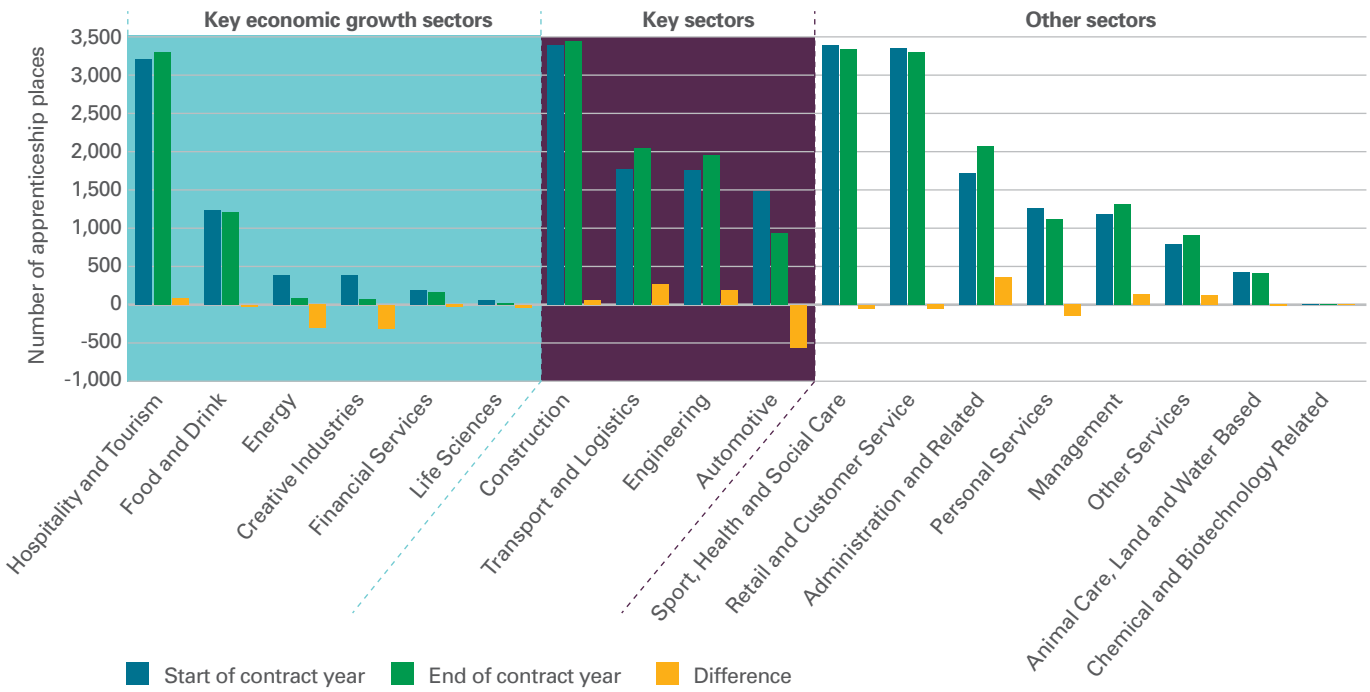
37. SDS does not publicly report performance against the target of 500 modern apprenticeships in the energy and low-carbon sectors although it told us that it achieved this in 2012/13. There are no specific apprenticeships in the low-carbon sector. SDS, therefore, counts all apprentices employed by a business operating in the energy or low-carbon sectors towards the target, regardless of the type of apprenticeship they are doing. For example, an apprentice undertaking a customer service apprenticeship or an engineering apprenticeship will count towards the 500 target if their employer operates in the energy or low-carbon sectors.

38. The Commission recommended that modern apprenticeships should be better aligned with the skills needed to help the economy to grow. SDS is currently piloting an initiative targeting employers in the engineering sector as a means of increasing apprenticeship opportunities across a range of key economic growth sectors. In addition, SDS, in partnership with industry leadership groups, is developing Skills Investment Plans (SIPs). These aim to identify long-term skills needs for each growth sector and actions necessary to fill any gaps, including the need to develop apprenticeship frameworks. So far, SIPs have been developed for the energy, food and drink, tourism and financial services sectors.²³ They are currently being developed for the chemical sciences, construction, engineering, ICT and life sciences sectors. The Commission recommends that information from SIPs, along with Regional Skills Assessments, should increasingly influence the availability of apprenticeship opportunities.²⁴

Exhibit 7

Apprenticeship places allocated and delivered in 2012/13

There is little variation in the number of apprenticeship places allocated at the start of the year and delivered at the end of the year.



Source: Audit Scotland analysis of SDS data, 2012/13

The number of females undertaking a modern apprenticeship has increased significantly

39. In 2012/13, there were almost four times as many female apprentices compared to 2008/09 (increasing from 2,862 to 11,040). They now represent 43 per cent of all new apprentices. Gender imbalance still exists in some traditionally male or female dominated sectors. For example, in 2012/13, 98 per cent of new apprentices in construction were male and 97 per cent of new apprentices in children’s care, learning and development were female. SDS and Construction Skills (the SSC for the construction sector) are actively trying to encourage more women into the construction sector, for example by promoting case studies of successful women on their websites. Construction Skills also run women-only events for secondary school pupils providing them with practical experience of construction-related jobs. But SDS and Construction Skills’ ability to influence career choices is limited. Gender imbalance exists in the subjects chosen by individuals in schools, colleges and universities, and in the wider workforce more generally. The Scottish Government intends to promote equalities as one of the main themes of Scottish Apprenticeship Week in 2014.²⁵

The number of people completing their apprenticeship has increased

40. The percentage of apprentices completing their apprenticeship (referred to as the achievement rate) increased from 67 per cent in 2008/09 to 77 per cent in 2012/13.²⁶ SDS has been working to improve achievement rates and described a number of actions which may have contributed to this increase:

- Raising awareness among individuals and employers of what an apprenticeship involves.
- Encouraging training providers and employers to check that potential apprentices have the capability, commitment and enthusiasm to complete an apprenticeship.
- Changing how they fund apprenticeships to focus on progress and completion. SDS now pays a larger proportion, up to 50 per cent, to training providers after an apprentice completes the apprenticeship.²⁷ This is known as the outcome-based payment.

41. SDS sets minimum expected achievement rates for each framework and monitors training providers' performance against these. Minimum achievement rates depend on the level of apprenticeship, the age of the apprentice and the number of apprentices undertaking a framework. They also tend to reflect staff turnover patterns in individual sectors. In 2013/14, minimum achievement rates ranged from 55 per cent (for example in all levels of accountancy frameworks) to 75 per cent (for example in level 3 frameworks in plumbing).

42. There is little variation in actual achievement rates among apprenticeship levels and age groups. In 2012/13, these ranged from 74 per cent for a 16-19-year-old on a level 2 framework, to 78 per cent for individuals aged 20 and over on a framework at level 3 and above.

43. An individual may still benefit from a modern apprenticeship even if they do not complete it. For example, they will have gained work experience, and possibly additional skills and part-qualifications that they can transfer to a new job. SDS's 2012 apprentice survey found that the main reason for an individual leaving their apprenticeship early was that they found a better job. It also found that 86 per cent of individuals who did not complete their apprenticeship were in employment six months after leaving their apprenticeship.

Public sector spending on modern apprenticeships has increased to £75 million a year

44. Public sector spending on apprenticeships increased in real terms from £60 million in 2008/09 to just under £75 million in 2012/13, which is a 24 per cent increase.²⁸ SDS distributes funding to training providers, as a contribution towards the cost of training, assessments, or both. In general, people aged 16 and over who have left full-time education and who are employed, but not self-employed, are eligible for funding.²⁹ Of the £75 million spent in 2012/13:

- 25 per cent (£18.8 million) was for new apprentices in the first year of their training
- 75 per cent (£56.2 million) was for apprentices who had started an apprenticeship in previous years and were continuing their training.

More funding is available for apprenticeships in the Scottish Government's priority areas

45. SDS inherited modern apprenticeship contribution rates (that is, the money it pays training providers for each apprenticeship framework per apprentice) from Scottish Enterprise. Rates vary according to the type of apprenticeship, its length

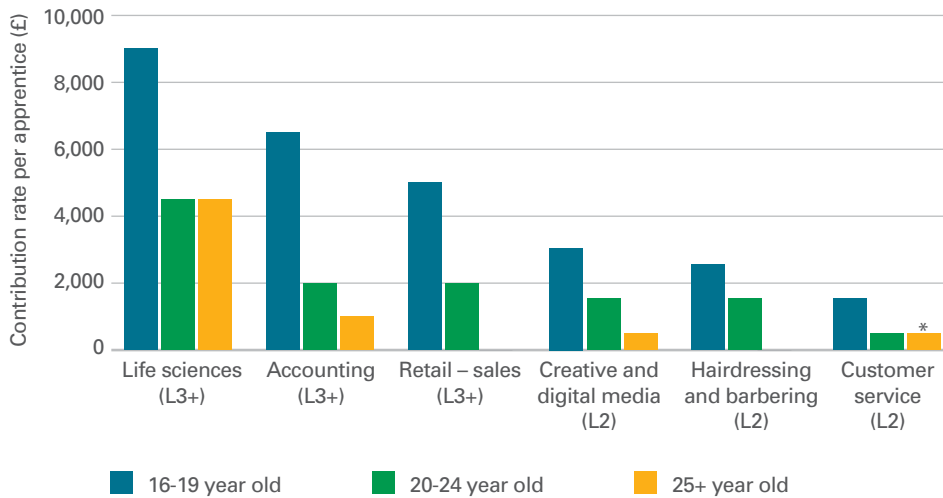
and difficulty and have changed little in the last ten years. They are categorised into three age groups. In keeping with Scottish Government priorities, they are higher for younger people and apprenticeships at level 3 and above, and in some cases are restricted to apprenticeship frameworks in key sectors:

- For 16-19-year-olds, contributions are available for all apprenticeship frameworks and range from £1,550 to £9,000 for each apprentice.
- For 20-24-year-olds, contributions are available for all apprenticeship frameworks, but at a lower rate than the funding for 16-19-year-olds. Contribution rates range from £500 to £4,500 for each apprentice.
- For apprentices aged 25 and over, contributions are restricted to frameworks in the Scottish Government’s key sectors. Contribution rates for this age group are lower than those for 16-19-year-olds across all apprenticeship frameworks, and in most cases are less than the contribution rates available for 20-24-year-olds. Contribution rates range from zero to £4,500 for each apprentice ([Exhibit 8](#)).

Exhibit 8

Contribution rates for a range of apprenticeship frameworks

Contribution rates vary by framework, age and level.



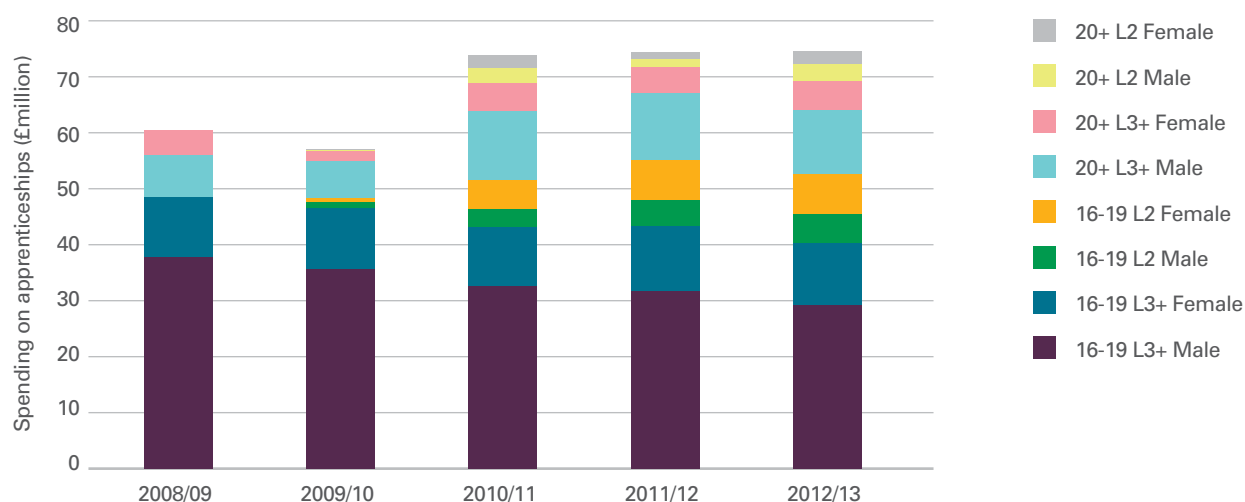
Note: * Funding is available for a customer services framework for the 25+ group only if the employer’s business is classified in one of the key sectors.

Source: SDS apprenticeship contributions table 2013/14

46. The highest amount of apprenticeship spending in the last five years has been on 16-19-year-old males undertaking a modern apprenticeship at level 3 and above. However, this has fallen from 62 per cent of the total funding in 2008/09 to 39 per cent in 2012/13 ([Exhibit 9, page 25](#)). Males aged 16-19 comprise the largest group of apprentices and they tend to undertake apprenticeships with the highest contribution rates. For example, in 2012/13, 75 per cent of people who started an engineering apprenticeship, one of the frameworks with the highest contribution rate of £9,000, were 16-19-year-old males.

Exhibit 9**Spending on modern apprenticeships by age, level and gender, 2008/09 to 2012/13**

The largest amount of spending is on 16-19-year-old males on apprenticeships at level 3 and above.



Source: Audit Scotland analysis of SDS data



47. Further analysis of apprenticeship spending and start numbers in 2012/13 shows that:

- seventy per cent of spending (£53 million) was on 16-19-year-olds although they accounted for only 50 per cent of new starts. This reflects SDS's higher contribution rates for this age group, which can be double the amount paid for older apprentices
- apprenticeships at level 3 and above represented 58 per cent of new starts and 76 per cent of spending (£57.3 million), due to the higher levels of contributions available. Spending on higher levels of apprenticeships has gradually decreased since 2009/10 due to the introduction and increased availability of level 2 modern apprenticeships. The amount spent on level 2 apprenticeships has increased considerably from £2.2 million in 2009/10 to £17.7 million in 2012/13
- apprenticeships in the key sectors accounted for 61 per cent of apprenticeship spending (£46 million) and just over half of apprenticeship starts. The highest amount of spending was on construction apprenticeships (£11.5 million)
- females accounted for 43 per cent of apprenticeship starts but only a third of apprenticeship spending (£25.6 million). This is because females tend to undertake frameworks that attract less public sector contributions, such as customer services and hairdressing.

48. SDS's annual spending on modern apprenticeships is influenced by a number of factors including:

- the number of new apprentices and the total number of apprentices in training
- apprenticeship achievement rates, which determine the length of time individuals are undertaking training and the amount of outcome-based payments that are due
- the types and levels of apprenticeships that are being undertaken, which determine the amount and timing of contributions.

49. SDS carries out financial modelling to predict how much funding it will need each year for new apprentices and for those continuing their training. Currently, around 75 per cent of modern apprenticeship expenditure is on apprentices in year two, or later, of their training. SDS is concerned that this percentage will increase due to higher achievement rates and a focus on higher levels of apprenticeships which are more expensive and take longer to complete. This creates a risk to the financial sustainability of funding 25,000 new apprentice starts within current budget limits. It is important that SDS continues to monitor the financial impact of higher levels of apprenticeships, particularly if the Scottish Government accepts the recommendation by the Commission for Developing Scotland's Young Workforce to increase its target for new starts. The Commission recognises that expanding the number of apprenticeships will require additional funding.

It is not clear to what extent contribution rates reflect the cost of training or influence employers' recruitment decisions

50. The aim of public sector funding for apprenticeships is to encourage training that would otherwise not take place. SDS expects funding to contribute towards, but not fully meet, training providers' costs. SDS has a broad idea of the relative costs of apprenticeship training. For example, it knows that a construction framework costs more to deliver than a hospitality framework. But it does not know the exact costs of training delivery as this is often a commercial matter between training providers and employers. This means SDS does not know the extent to which contribution rates fully cover the costs of training, either for individual training providers or for individual apprenticeship frameworks.

51. Training providers told us they understand that different levels of contribution rates are intended to increase apprenticeship numbers in the Scottish Government's priority areas. They also reported that contribution rates often do not reflect what it costs to deliver training. For example, training providers receive half the amount of funding to train a 20-year-old compared to a 19-year-old for the same framework but the training costs the same to deliver. A third of training providers who responded to our survey (including 27 private training providers and 13 colleges) reported that SDS contributions do not cover the full cost of training. Just over one in ten reported that contributions fully cover the cost of training for all of the frameworks they deliver.

52. SDS expects training providers to request funding from employers, where necessary, to cover their training costs. However, with the exception of engineering apprenticeships, we found that employers do not generally contribute to training providers' costs. Training providers report that they rarely request

funding as employers do not understand the public sector funding arrangements and they already contribute financially to apprenticeships through on-the-job training and salary costs.

53. SDS has recently reviewed contribution rates to help ensure that they provide value for money. This included assessing training delivery costs and how it could use contribution rates to influence employer recruitment patterns. SDS intends to introduce revised contribution rates over the next five years and will pilot revised rates for 14 frameworks in 2014/15. It expects some contribution rates will increase while others will decrease. It intends to monitor the impact of this on employer and training provider demand for apprenticeships.

There is a need to better understand the long-term benefits of modern apprenticeships

54. It is important that public sector bodies develop clear aims and objectives for any policy initiative, together with appropriate performance measures. This is so that they can assess whether the initiative is successful and demonstrates value for money.

55. The 2006 evaluation of modern apprenticeships found that its goals and objectives were not clear. Subsequently, the Scottish Government stated in its 2007 skills strategy that it 'believes that the primary aim of the modern apprenticeship programme is economic development through enabling individuals to earn while they learn and develop skills relevant to their job'. The Scottish Government's refreshed skills strategy in 2010 confirmed the importance it attaches to modern apprenticeships in contributing to a skilled workforce and economic recovery.

56. The Scottish Government has not published an explicit statement of its overall aim for modern apprenticeships since 2007. Since then Scotland has undergone a period of significant recession. There have also been other considerable changes affecting modern apprenticeships including: a changing labour market; the introduction of the 25,000 start target; a Scottish Government commitment to offer a place in education, employment or training for 16-19-year-olds; and a greater focus on outcomes through the national performance framework.

57. The Scottish Government's annual ministerial guidance letter to SDS focuses on how SDS should allocate apprenticeship places, rather than what the Scottish Government expects modern apprenticeships to achieve. As a result, there is a general understanding among the main organisations involved that modern apprenticeships have a dual purpose, but it is not clear which of these, if any, is the priority:

- to help develop the skills of Scotland's workforce
- to provide employment opportunities, particularly for younger people.

Existing performance measures do not focus sufficiently on the benefits expected from modern apprenticeships

58. Existing performance measures for modern apprenticeships focus more on inputs (for example, the 25,000 start target) and outputs (such as the number of individuals achieving their apprenticeship) rather than outcomes and the longer-term benefits. The national performance framework includes a number of indicators relating to improving employment opportunities, increasing skills

and providing positive destinations for school leavers. However, there are no outcome-based performance measures which would allow the Scottish Government to assess how modern apprenticeships contribute to these, and to evaluate the extent to which modern apprenticeships are achieving value for money. In particular, there are no performance measures which assess the long-term benefits of apprenticeships, such as the extent to which they:

- improve the skills of the workforce
- create new jobs
- contribute to sustainable employment and economic growth
- improve productivity and competitiveness for businesses
- increase earnings.

59. Assessing the long-term benefits of apprenticeships is likely to be complex and it will take some time to introduce new measures. The Scottish Government needs to consider the most cost-effective way of doing this, for example how best to make use of The Office for National Statistics' (ONS) annual population and labour force surveys. SDS has started looking at some of the wider benefits of apprenticeships. For example, it has analysed how long people were employed before starting their apprenticeship to try to assess whether the apprenticeship has contributed to creating a new job. In 2012/13, 53 per cent of new apprentices had been employed for six months or less and 31 per cent for a year or longer.³⁰

60. SDS's 2012 survey of former apprentices looked at their employment status six months after leaving their apprenticeship.³¹ It found that:

- 92 per cent of respondents who completed their apprenticeship were in employment, of whom 70 per cent were with the same employer
- the older the apprentice the more likely they were to be in employment.

Better targeting of public funding is needed to maximise value for money

61. Performance measures that provide a better understanding of the long-term benefits of modern apprenticeships would allow funding to be directed to those that offer the most value for individuals, employers and the Scottish economy. Although the Scottish Government and Scottish Enterprise have carried out periodic evaluations, there has been no routine monitoring of apprenticeships to assess how funding could be better targeted to get the greatest economic and social benefit. For example, there is scope to consider how modern apprenticeship funding could be used alongside existing incentives, such as the Youth Employment Fund, to encourage employers in areas of low employment to take on an apprentice.³² We looked at apprenticeship starts by council area, but this showed little correlation between new apprentices per head of population and employment rates for 16-24-year-olds.

Recommendations

The Scottish Government, working with Skills Development Scotland, should:

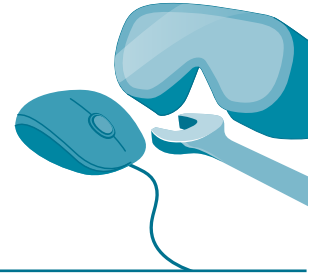
- confirm that its overall aim for modern apprenticeships is still valid and develop specific objectives in support of this
- ensure the aims and objectives are publicised to all organisations involved in delivering apprenticeships, and to employers and apprentices
- develop appropriate performance measures to assess the long-term benefits of apprenticeships, such as a more skilled workforce, sustainable employment and increased earnings, and publicly report against these. This should include making use of existing information, including ONS' annual labour market surveys
- review the long-term benefits of modern apprenticeships and ensure funding is directed to those that demonstrate most value for individuals, employers and the Scottish economy.

Skills Development Scotland should:

- determine the effect revised contribution rates might have on training providers' and employers' involvement with apprenticeships, and establish processes for monitoring the impact of any changes on the overall value for money achieved
 - clearly explain, to training providers and employers, the extent to which they expect revised contribution rates to reflect the costs of training
 - consider how to use contribution rates, along with other incentives, to encourage employer participation, for example in areas of lower employment
 - monitor funding for apprenticeships at level 3 and above and in key sectors, to assess affordability within current budget limits, particularly if the Scottish Government wants to increase its target for new starts.
-

Part 3

Administration of modern apprenticeships



Key messages

- 1** SDS administers modern apprenticeships well in challenging circumstances. It is meeting a demanding starts target at the same time as reducing its costs. Administering apprenticeships is complex and there is potential to streamline and improve some processes.
- 2** SDS has a comprehensive process for contracting and allocating apprenticeship places to training providers. This takes into account a range of factors including Scottish Government priorities for modern apprenticeships and past performance of training providers.
- 3** A number of organisations carry out quality assurance for modern apprenticeships although they share little information on their findings. It is not clear who is responsible for acting on and reporting any concerns about training providers' performance.
- 4** Modern apprenticeships are valued by employers and apprentices. There is scope to increase employers' awareness and participation as employers are not always aware of where to find information about apprenticeships. Most apprentices are positive about apprenticeships and the opportunities they provide. More could be done to promote apprenticeships to young people, parents and teachers as a valid alternative to further or higher education.

apprenticeships
are highly
valued by
employers and
apprentices

SDS manages the apprenticeship contracting process well

62. SDS administers modern apprenticeships well in challenging circumstances. For example, since SDS's creation in 2008, the Scottish Government has required it to make annual efficiency savings, totalling £80 million over the last five years.³³ This has contributed to a 25 per cent reduction in staff numbers from 1,439 full-time equivalents (FTE) in April 2008 to 1,077 FTE in March 2013. At the same time, the Scottish Government expects it to maintain service levels and quality, and deliver record numbers of new apprenticeships. SDS's role has changed since 2008 and it now has a greater focus on employer engagement, promoting apprenticeships and developing its research programme to understand the impact of its work.

63. SDS's administration of apprenticeships is a largely cyclical process that involves:

- estimating employer demand for apprenticeships and annually contracting with training providers to deliver apprenticeship training

- distributing funding to training providers, based on their contracts
- assessing how apprenticeships are delivered, by monitoring progress against apprenticeship targets and assuring the quality of training provided.

64. SDS has recently reviewed a number of its activities and developed an improvement plan that contains several actions related to modern apprenticeships. We comment on SDS's improvement activities in this section of the report.

Estimating employer demand for apprenticeships is difficult

65. Employers have a large role in determining how many people start an apprenticeship as all apprentices have to be employed. Understanding and encouraging demand from employers is therefore vital to meeting the target for new apprenticeship starts and other Scottish Government priorities. However, the level of demand from employers is difficult to predict. Employers often do not know in advance how many apprentices they will require in any year, as this can often depend on external factors, such as whether they secure a large contract. As a result, demand for apprenticeships often fluctuates throughout the year.

66. Sector Skills Councils (SSCs) gather information from employers on anticipated demand for apprentices. They do this by age group, and level and type of framework. SDS uses this information, along with intelligence from its sector managers and Skills Investment Plans (SIPs), economic and labour market data, and apprenticeship trends, to prepare an annual demand statement. It uses this as a basis to award contracts to individual training providers.

SDS has a comprehensive process for contracting and allocating training places

67. SDS's contracting process is comprehensive. Tender documents are advertised on Public Contracts Scotland, setting out its priorities for apprenticeship funding and including clear evaluation criteria.³⁴ SDS takes account of various factors when awarding contracts (that is, allocating apprenticeship places) to individual training providers. Factors include:

- its own and training providers' estimates of employer demand
- its assessment of training providers' capacity, previous experience and performance
- Scottish Government priorities for apprenticeships
- the need to stay within its overall apprenticeship budget.

68. Training providers told us that SDS's decisions on contract awards are often not clear, and that it provides limited feedback on the variation between the number of apprenticeship places they ask for and the number awarded. As a result, training providers told us that they often overbid for places in an attempt to ensure they are awarded their desired number of apprenticeships. In total, around 46,000 apprenticeship places were requested in 2013/14, although SDS considers that training providers did not back up many of these requests with enough evidence of employer demand.

69. SDS allocated just over 26,000 apprenticeship places to training providers at the start of the 2012/13 contract year. It redistributes numbers and types of apprenticeship places throughout the year to reflect changes in employer demand. SDS told us that they attempt to maximise the number of apprenticeship places they allocate to reflect Scottish Government priorities. However, the need for SDS to achieve the 25,000 start target can result in it allocating more non-priority apprenticeship places towards the end of the contract year, if this is what employers demand.

The contract award and allocation process is time-consuming and its costs are not known

70. Training providers told us that the contracting process is time-consuming although many acknowledge that some improvements have been made. For example, half of the training providers who responded to our survey stated that SDS provided better information as part of the 2013/14 contracting process than in previous years. Nearly two-thirds stated that the amount of information that they were required to submit had decreased compared to previous years.

71. SDS told us that the process of preparing for the contracting process, responding to queries, and collating and scoring bids is resource intensive. It spends significant time trying to identify genuine employer demand from the number of apprenticeship places requested from training providers. SDS has not attempted to cost its annual contracting and allocation processes. It is difficult to estimate as the contracting process for apprenticeships is undertaken at the same time as other training programmes. SDS is currently streamlining the contracting process:

- It introduced some flexibility to apprenticeship contracts in 2013/14. This allows training providers to make amendments without SDS approval, provided they are in line with Scottish Government priorities. For example, they can re-allocate an apprenticeship place from a 20-24-year-old to a 16-19-year-old, or from a level 2 to a level 3, if this is what employers request. Training providers have welcomed this flexibility.
- SDS is considering changing some training provider contracts from annual to three-year contracts to reduce the time spent on the process, and to reward high-performing training providers. However, it recognises it needs to consider what impact any changes may have on the ability of new training providers to establish themselves in the modern apprenticeship market. All of the training providers who responded to our survey had over ten years' experience in delivering apprenticeship training. SDS tries to encourage new training providers into the market, for example by advising them to go into partnership with existing providers. But it acknowledges that it is difficult for training providers without a track record to win apprenticeship contracts.

There is scope to improve monitoring and quality assurance arrangements

Assuring the quality of training provision could be better coordinated

72. Several organisations, including SDS, awarding bodies and SQA Accreditation, have a role in monitoring the quality of modern apprenticeships ([Exhibit 10, page 34](#)). Ensuring the quality of modern apprenticeships is complex due to

the number of apprentices (over 25,000), employers (over 10,000) and training providers (around 250) involved. Current quality assurance processes are intended to ensure that:

- training providers have suitable staff, facilities and procedures in place to deliver apprenticeship training (carried out by training provider self-assessments, supported by risk-based reviews by awarding bodies and SDS)
- the assessment of apprentices is conducted appropriately and consistently (carried out internally by training providers and externally by awarding bodies)
- apprentices and employers benefit from modern apprenticeships (carried out by SDS, through employer and apprentice surveys).

73. SDS and awarding bodies have separate quality assurance procedures which could benefit from formal coordination. There is no formal arrangement setting out who is responsible for reporting, and acting upon, any concerns about the quality of training delivered by training providers and employers. Although SDS and SQA Accreditation discuss training providers' performance if issues arise, this could be done in a more structured and consistent way. Better sharing of information between SDS and awarding bodies, and between different awarding bodies, could help identify poor quality training and reduce the inspection burden on training providers with good training records. A memorandum of understanding is currently being developed between SDS and SQA Accreditation which will allow them to formally share information on training providers. SDS should consider extending this to awarding bodies.

74. There are no formal systems in place to share good practice that has been identified, by SDS or awarding bodies, which other training providers may benefit from. Similarly, the results of quality assurance reviews are not publicly reported which means there is a lack of information about the quality of training providers available for employers, young people and parents.

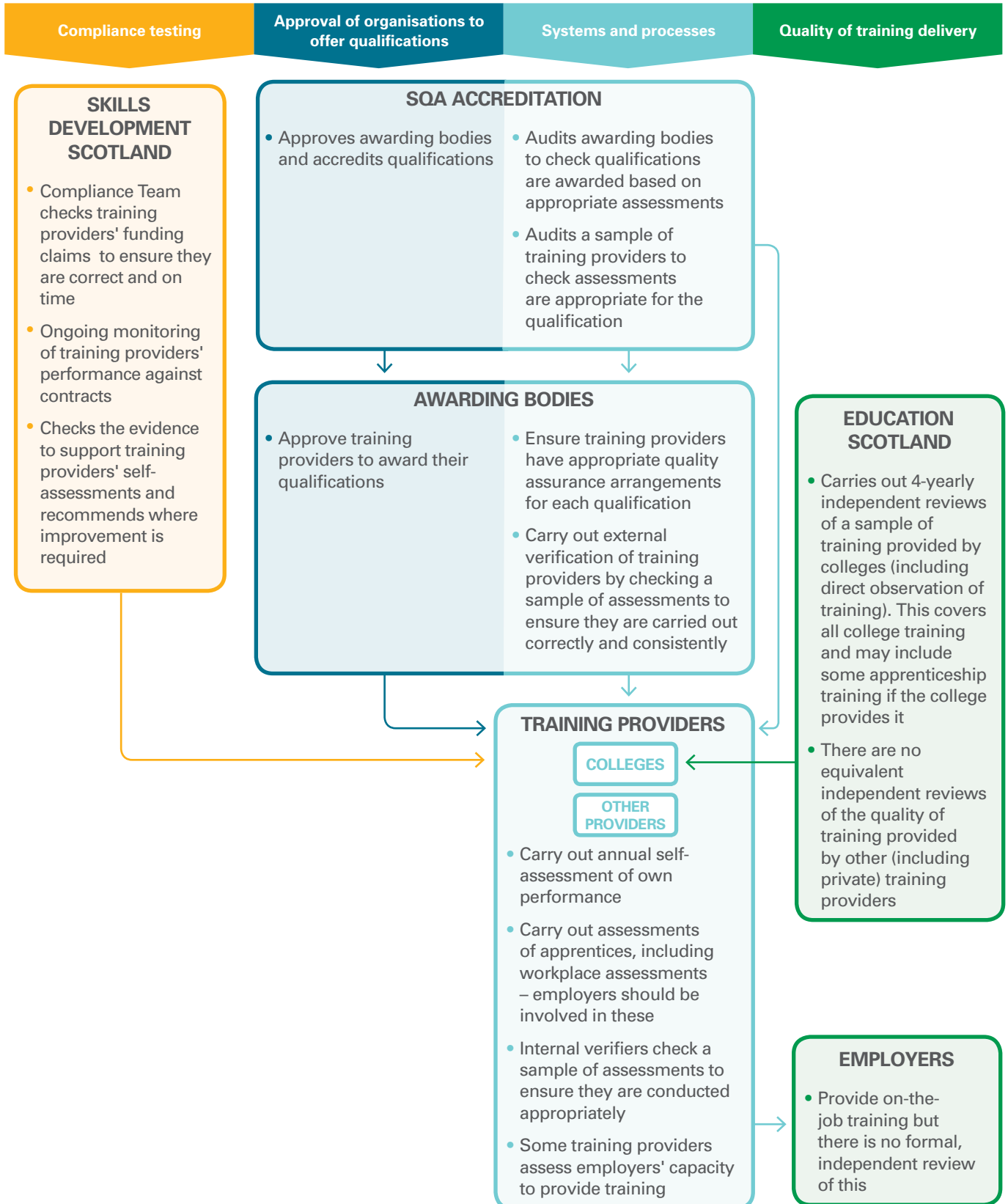
75. Employers are responsible for work-based training and therefore have an important role in ensuring apprentices successfully complete apprenticeships. Monitoring the quality of work-based training is more complicated than classroom-based training due to the large number of employers involved – over 10,000 in 2012/13. The majority of these employed just one apprentice. Some measures are in place to ensure the quality of work-based training but there is no standard quality assurance model. For example:

- Three training providers told us that they carry out initial checks with employers, prior to apprentices starting training, to ensure they are able to offer appropriate work activity. However, there is no requirement from SDS that they do this.

Exhibit 10

Organisations involved in the quality assurance process

Several organisations have a role in monitoring the quality of modern apprenticeships.



- Construction Skills SSC also carries out pre-employment checks with employers. In addition it has regular meetings throughout the apprenticeship with employers and apprentices at their place of work. This is not a requirement of SSCs and is not replicated across all of them.

76. SDS relies on its surveys of employers and apprentices, and meetings with apprentices, to determine the extent to which they are satisfied with their apprenticeship experience, which includes work-based training. SDS's 2012 surveys found high levels of satisfaction by employers and apprentices (further details are set out later in this chapter).

77. The Commission for Developing Scotland's Young Workforce reported that there are no formal external quality assurance and improvement processes for modern apprenticeships. While training providers are responsible for self-assessing the quality of training, there are currently no independent arrangements in place to assess how well apprenticeship training is delivered. The Commission recommended that Education Scotland's remit, in respect of inspecting the quality of college learning, be extended to include reviews of apprenticeship training by all types of training providers. The Scottish Government reports that work is under way, led by its Post-16 Education Reform Board, to strengthen quality assurance arrangements for modern apprenticeships.

There are concerns about apprenticeship assessments

78. Awarding bodies set assessment standards for each qualification on apprenticeship frameworks. Training providers are responsible for assessing whether apprentices meet the standards required to complete each qualification unit included in their apprenticeship. Training providers notify awarding bodies when units are achieved prior to submitting payment claims to SDS. Payments to training providers are made on the basis of apprentices passing a predetermined number of qualification units, meaning there is a financial incentive for them to pass apprentices. This increases the importance of having robust quality assurance arrangements in place.

79. SDS told us that it expects employers to be involved in the assessment process to minimise this risk. Our discussions with training providers and employers found that this does not always take place. Awarding bodies externally verify that training providers are conducting assessments correctly and SDS relies on these arrangements to ensure that apprentices are appropriately assessed. However, training providers told us that as these checks are only carried out on a sample of assessments, there is only a small chance that the external verification process will uncover any examples of assessments not being carried out appropriately. Construction Skills introduced annual testing of apprentices in response to its own and employers' concerns about the quality of training, the standard of assessments and low apprenticeship achievement rates. Historically, many apprentices were passing all the units of their apprenticeships but failing Construction Skills' final test of competency. Construction Skills' achievement rates have improved since it introduced annual testing and support material for apprentices, employers and colleges.

Better IT systems could help SDS manage the administration of modern apprenticeships

80. SDS maintains an IT system known as the Corporate Training System (CTS) for recording and monitoring apprenticeship information. Training providers have access to CTS to enter apprentices' details, including start dates and

expected completion dates, but they are not able to produce reports from it. To obtain meaningful management information, such as details of outstanding funding claims, training providers often have to run their own in-house IT system in parallel to CTS. SDS uses CTS for internal and external reports on apprenticeships. It considers the system is reliable but its further development potential is limited by the technology used. For example, SDS is not able to add extra data interrogation fields, which could be useful for reporting.

81. SDS recognises there could be significant benefits in developing an IT system that links with other systems that capture education and training data, such as those maintained by awarding bodies or the Scottish Funding Council. An online 'data hub' currently exists, facilitated by SDS, which collates data from a number of organisations (including colleges and councils) on people aged 16 to 19 in education, training and work. This is then used to plan education and training support for those who need it. There is scope to enhance data capture and sharing, for example, to include individuals of all ages.

Increasing awareness of modern apprenticeships could encourage more involvement by employers and young people

Apprenticeships are highly valued by employers but they are not clear about where to access relevant information

82. Apprenticeships are valued by employers. Almost all of the 2,500 employers surveyed by SDS in 2012 reported that individuals were better able to do their job as a result of their apprenticeship. Two-thirds of employers also reported improvements in productivity, service or product quality, and staff morale. We also found that apprenticeships:

- offer employers the opportunity to develop their staff to help meet the needs of the business
- are a more cost-effective way for employers to train people, compared to taking on a graduate
- make employees feel valued, which results in them feeling more loyal to their employer and motivated to do a good job.

83. Employers report that information on modern apprenticeships could be improved. They are not always clear where to access relevant, helpful information with the least amount of effort. They are often not sure what apprenticeships are available, who is responsible for training and what funding is involved. Raising awareness of the operation and benefits of apprenticeships could help to increase the number of employers taking on apprentices.

84. SDS has made considerable effort to improve awareness and promote the benefits of apprenticeships. This includes establishing a new employer engagement team, developing new websites for employers and young people, and promoting Scottish Apprenticeship Week. SDS is also represented on local employability partnerships.³⁵ These are responsible for coordinating employability services in each council area and have established arrangements to engage with local employers, which could be used to help raise awareness of apprenticeships.

85. The annual number of employers taking on a new apprentice increased by 50 per cent in the last five years, from just under 5,000 in 2008/09 to over 7,600 in

2012/13. However, SDS's 2012 survey of employers found that most organisations employing apprentices are relatively small, with nearly two-thirds employing fewer than 25 staff. More than half of employers involved in the programme (59 per cent) take on just one apprentice a year and 90 per cent take on fewer than five. Getting more employers to take part is therefore essential if SDS is to continue meeting its annual target of 25,000 new apprenticeships starts. The Commission for Developing Scotland's Young Workforce recommended a new online application system be developed to help increase access to apprenticeships for both employers and apprentices and SDS is currently progressing this.

Apprentices are positive about their apprenticeship experience but more work is needed to promote the benefits to young people

86. The majority of apprentices value their apprenticeship. SDS's 2012 survey of 2,000 former apprentices found that 87 per cent were either satisfied or very satisfied with their apprenticeship. They reported that their apprenticeship had improved their long-term career prospects and increased both job satisfaction and salaries. We spoke to a number of hospitality apprentices who said they would recommend an apprenticeship to others. The benefits they reported from doing an apprenticeship included increased confidence, new skills in management and communication, and a wider understanding of the business. SDS's website also highlights similar positive experiences ([Exhibit 11](#)).

Exhibit 11

Benefits reported by apprentices

Apprentices are highly satisfied with their apprenticeships.

- **Hospitality apprentice:** "I enjoyed doing my apprenticeship. It made me more confident and encouraged me to think for myself. After completing my qualification my employer recommended me for a management course. This will give me many more opportunities and will improve my promotion prospects."
- **Mechanical maintenance apprentice:** "Doing an apprenticeship is great because you get so much hands-on experience and a recognised qualification at the end of it."
- **IT apprentice:** "I learned on the job and got paid while I was doing it. I'd definitely recommend apprenticeships as unlike my pals who went to university, I've now got money and a car."
- **Hospitality apprentice:** "A lot of the skills I learned doing my apprenticeship are transferrable. This has meant I have been able to change my career, but I have been able to make use of the experience I gained in my previous job."
- **Mechanical engineering apprentice:** "The apprenticeship was the best thing I have ever done. It has given me a broad experience of the business and opened so many doors for me."
- **Life sciences apprentice:** "I've learned much more than I feel I would have, had I just gone to university to study. If I do decide to go to university now, I think the apprenticeship will really have helped me prepare for that."

87. All organisations involved in modern apprenticeships agree that young people, parents and teachers often lack awareness of the types of apprenticeships available and the long-term career prospects that they offer. If the Scottish Government accepts the recommendation by the Commission for Developing Scotland's Young Workforce to increase the target for the annual number of new apprentices, more work is likely to be needed to:

- increase awareness of the benefits of apprenticeships
- promote apprenticeships as valid career paths. To facilitate this, SDS is developing pilots for new pathways into apprenticeship training with a number of councils. This will involve, where appropriate, individuals starting the first year of their apprenticeship training (the classroom-based element) in their final year of school.

Recommendations

The Scottish Government, working with Skills Development Scotland, should:

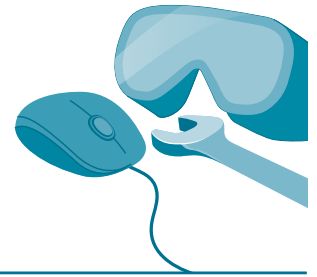
- work with awarding bodies and SQA Accreditation to clarify and improve quality assurance arrangements. This should include formalising arrangements to share information, including good practice, and agreeing who is responsible for acting on, and reporting, any concerns about training providers' performance
- further develop IT systems to capture and share education and training data across relevant public bodies and to help minimise duplication.


Skills Development Scotland should:



- better communicate its decisions on contract awards to training providers, including providing reasons for significant variations in the number of apprenticeship training places that training providers request and that SDS awards
- develop baseline costs for its annual contracting process to assess the potential efficiencies of moving to three-year contracts with training providers
- assess the information it needs to manage the administration of modern apprenticeships and identify how it could develop IT systems that would support this
- target specific groups of employers to raise awareness of the operation and benefits of apprenticeships and to encourage them to take on apprentices. This should be focused on businesses in areas where there is low employment and those in the key economic growth sectors where appropriate

- in conjunction with other partners, including schools and industry leadership groups, better promote the value of apprenticeships to young people, parents and teachers, to encourage greater participation by young people
 - develop its improvement plan to take account of the recommendations in this report, prior to initiating the 2015/16 contracting process.
-

Endnotes

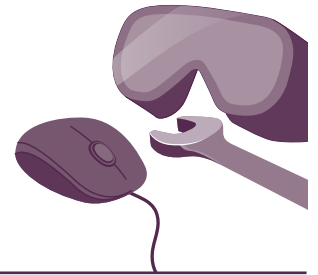


- ◀ 1 *The Government's Economic Strategy*, Scottish Government, September 2011.
- ◀ 2 *Putting learners at the centre: Delivering our ambitions for post-16 education*, Scottish Government, 2011.
- ◀ 3 *Skills for Scotland: A Lifelong Skills Strategy*, Scottish Government, September 2007.
- ◀ 4 *Regional Labour Market: H111 - Headline Indicators for Scotland*, August 2013, Office for National Statistics, 2013. These figures are for the full calendar year. Unemployment rates are published quarterly and vary throughout the year.
- ◀ 5 *Action for jobs - supporting young Scots into work. Scotland's Youth Employment Strategy*, Scottish Government, 2012.
- ◀ 6 Some employers choose to develop their own apprenticeships which are not submitted to MAG for approval. Some employers may also use modern apprenticeships but do not apply for, or receive, public sector funding.
- ◀ 7 Further details of MAG's remit and membership are set out in Part 1 of this report.
- ◀ 8 Traditionally all apprenticeships contained an SVQ. Alternative qualifications are now permitted. Apprenticeship levels still refer to the level of SVQ, for example, a level 4 apprenticeship contains a level 4 SVQ (or an alternative qualification at a similar level of demand). Further details of apprenticeship levels are in Part 1 of this report.
- ◀ 9 *Modern Apprenticeships Summary Information: 2012-13*. Skills Development Scotland. Note that the total number of apprentices in training changes on a daily basis.
- ◀ 10 *Evaluation of Modern Apprenticeships and Skillseekers*. Cambridge Policy Consultants, 2006. Until 2008, Scottish Enterprise was responsible for administering modern apprenticeships in the lowlands and uplands area of Scotland. Highlands & Islands Enterprise (HIE) was responsible for their administration in the highlands and islands.
- ◀ 11 *Commission for Developing Scotland's Young Workforce. Interim Report*, September 2013.
- ◀ 12 www.scotland.gov.uk/About/Performance/scotPerforms 
- ◀ 13 *Skills for Scotland: A Lifelong Skills Strategy*, Scottish Government, September 2007 and *Skills for Scotland: Accelerating the Recovery and Increasing Sustainable Economic Growth*, Scottish Government, October 2010.
- ◀ 14 *Opportunities for all: Supporting all young people to participate in post-16 learning, training or work*, Scottish Government, November 2012.
- ◀ 15 *Working for Growth: A refresh of the Employability Framework for Scotland*, Scottish Government, September 2012.
- ◀ 16 Apprenticeships are approved and removed on a monthly basis which means that the number available changes throughout the year. At the start of 2012/13 there were 70 types of apprenticeships available for new apprentices. A further 16 types of apprenticeships were no longer available to new entrants but had individuals part-way through their training.
- ◀ 17 Skillseekers was a training programme for people aged 16-19 who may or may not have been in employment. It offered young people a chance to develop their skills and work towards a vocational qualification.
- ◀ 18 Examples of SSCs include: LANTRA (for Land Management and Production, Animal Health and Welfare and Environmental Industries); People 1st (for Hospitality, Leisure, Passenger Transport, Travel and Tourism); and e-skills UK (for Software, Internet and Web, IT Services, Telecommunications and Business Change).

- ◀ 19 Launched in June 2009, *Adopt an Apprentice* provided a £2,000 incentive for employers to take on a redundant apprentice to help them complete their apprenticeship. From November 2009, *Safeguard an Apprentice* provided a £75 per week wage subsidy, per apprentice, to SMEs in the manufacturing, construction and engineering sectors to allow them to retain their apprentices.
- ◀ 20 Before 2008/09, Scottish Enterprise and Highlands and Islands Enterprise administered modern apprenticeships separately. We have been unable to identify spending on apprenticeships before 2008/09 as neither body set out this level of detail in their annual accounts.
- ◀ 21 This is an approximate estimate based on the total number of apprentices in training as at 31 March each year, and SDS's annual apprenticeship expenditure. The actual spend per apprentice in training is more complex as contribution rates vary depending on a range of factors, including age and level of apprenticeship.
- ◀ 22 It is difficult to measure the exact numbers of apprentices employed in the key sectors and key economic growth sectors. We based our estimates of these on SDS's 2012/13 apprenticeship guidance which sets out frameworks in key sectors. We have not included any apprentices who are undertaking generic frameworks (eg, management) as it is not possible to determine from the SDS data provided if they are employed in a key sector.
- ◀ 23 www.skillsdevelopmentscotland.co.uk/resources/skills-investment-plans 
- ◀ 24 SDS will develop Regional Skills Assessments for eight Scottish regions and will analyse economic and employer demand for skills and evidence of the skills needs of individuals and learners. They will be used as a basis for regional skills investment.
- ◀ 25 Scottish Apprenticeship Week consists of around 100 events to promote apprenticeships and is attended by employers, training providers, MSPs and apprentices.
- ◀ 26 SDS calculates achievement rates by dividing the total number of people who left their apprenticeship training in a year by the number of people who gained their apprenticeship qualification in that year.
- ◀ 27 The distribution of apprenticeship funding depends on the apprentice's age and the apprenticeship framework. The final payment ranges from 25 per cent of the total contribution (for 16-19-year-olds) to 50 per cent (for age 20+).
- ◀ 28 In 2008/09, modern apprenticeship spending, in cash terms, was £55.1 million.
- ◀ 29 There are a few exceptions, for example an individual who receives SDS funding for any other training is not eligible.
- ◀ 30 [Modern Apprenticeship Data - MA status prior to entry on the programme \(PDF\)](#)  Skills Development Scotland, June 2012.
- ◀ 31 *Modern apprenticeships outcomes 2012*, Skills Development Scotland, January 2013.
- ◀ 32 The £50 million Youth Employment Fund is distributed by councils to employers who take on a young person who has been unemployed for up to six months. It provides 50 per cent of a young person's salary costs for at least six months.
- ◀ 33 SDS's submission to the Scottish Parliament's Economy, Energy and Tourism Committee's inquiry on the draft budget 2014/15.
- ◀ 34 Public Contracts Scotland is a website through which all public sector bodies, including councils and the NHS, are expected to advertise procurement opportunities.
- ◀ 35 Local employability partnerships exist in each council area to plan and coordinate employability support. Membership includes organisations involved in delivering employability services, such as councils, colleges, SDS, business representative groups and JobcentrePlus.

Appendix 1

Audit methodology



Evidence for our audit was based on four main components:

Desk research

We reviewed a range of published information to inform our audit, including:

- Scottish Government strategies and policy documents
- SDS's apprenticeship guidance, research surveys, board papers, contracting procedures, quality assurance documents
- relevant reports and research by, among others, the Wood Commission, National Audit Office, Department for Business, Innovation and Skills, Federation of Small Businesses
- various documents and statistics for apprenticeship programmes across the UK, including start numbers, eligibility criteria, funding arrangements and framework types.

Interviews and focus groups

We interviewed staff and representatives from various public and private sector bodies including:

- Scottish Government
- SDS
- awarding bodies (SQA and City & Guilds)
- SQA Accreditation
- SSCs (Construction Skills, People 1st and the Scottish Social Services Council)
- Scottish Training Federation (STF)
- Federation for Industry Skills and Standards
- UK Commission for Employment and Skills
- Federation of Small Businesses
- Scottish Trades Union Congress (STUC).

We also had discussions with employers. We:

- interviewed a number of private sector businesses who employ apprentices
- held a focus group with representatives from 20 councils, organised through the Scottish Local Authority Economic Development group, about their experience in employing apprentices
- held a focus group with employers in the hospitality sector.

We spoke to training providers through:

- focus groups with colleges, organised by Colleges Scotland
- group discussions with STF members (including colleges, private or third sector training providers, councils, or SSCs) at the STF 2013 Conference.

We also spoke to apprentices undertaking a hospitality apprenticeship. This was organised by People First SSC.

Data analysis

We analysed a wide range of SDS data from 2008/09 to 2012/13 on apprenticeship start numbers, achievement rates, contribution rates and funding levels by age group, apprenticeship level, occupational grouping, framework type, learning provider and employer. We calculated real-terms spending in 2012/13 prices using the GDP deflator series, published by HM Treasury.

Training provider survey

We surveyed training providers to gather information and views on:

- the contracting process
- training delivery methods
- contribution rates
- support and guidance provided for training providers.

We would like to thank Colleges Scotland and the Scottish Training Federation for distributing the training provider survey to their members (approximately 120 training providers). We received responses from 49 training providers (27 private, 13 colleges, seven public sector and two 'others') which is a 41 per cent response rate.

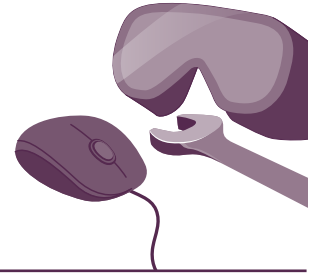
Other

We visited three colleges to gain first-hand experience of their training facilities, speak to staff and review the evidence required for quality assurance purposes, including how they used CTS.

We observed a Modern Apprenticeship Group (MAG) meeting, and reviewed a number of MAG meeting notes, to understand how decisions are made on approving apprenticeship frameworks.

Appendix 2

Membership of the advisory group



Audit Scotland would like to thank members of the advisory group for their input and advice throughout the audit.

George Brown	Scottish Qualifications Authority (SQA)
Colin Dalrymple	Scottish Training Federation
Andrew Livingstone	Skills Development Scotland
Barry McCulloch	Federation of Small Businesses
Professor Alan McGregor	The University of Glasgow
Maria Roushias	Colleges Scotland
Grahame Smith	Scottish Trades Union Congress (STUC)
Pamela Smith	Falkirk Council
Fiona Stewart	Skills Development Scotland
Rona Sweeney	Scottish Government

Note: Members of the advisory group sat in an advisory capacity only. The content and conclusions of this report are the sole responsibility of Audit Scotland.

Modern apprenticeships

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