

Public Accounts Committee

Oral evidence: Delivering Value through the Apprenticeships Programme, HC 709

Wednesday 12 Oct 2016

Ordered by the House of Commons to be published on 12 Oct 2016.

Watch the meeting

Members present: Meg Hillier (Chair); Philip Boswell; Caroline Flint; Nigel Mills; Bridget Phillipson; John Pugh; Karin Smyth; Mrs Anne-Marie Trevelyan.

Sir Amyas Morse, Comptroller and Auditor General; Adrian Jenner, Director of Parliamentary Relations, National Audit Office; Peter Gray, Director, NAO; and Marius Gallaher, Alternate Treasury Officer of Accounts, HM Treasury, were in attendance.

Questions 1-135

Witnesses

[I](#): Sir Martin Donnelly KCB CMG, Permanent Secretary, Department of International Trade (former Permanent Secretary at BIS); David Hill, Director of Apprenticeships, Department for Education; Peter Lauener, Chief Executive, Skills Funding Agency/Education Funding Agency; and Jonathan Slater, Permanent Secretary, Department for Education.

Written evidence from witnesses:

Report by the Comptroller and Auditor General
Delivering value through the apprenticeships programme
(HC 624)

Examination of witnesses

Witnesses: Sir Martin Donnelly, David Hill, Peter Lauener and Jonathan Slater.

Q1 Chair: Welcome to the Public Accounts Committee on Wednesday 12 October 2016. We are here today to consider the findings of the National Audit Office Report on the Department for Education's apprenticeships programme, which as I think many people will know—certainly the witnesses will know—has a Government-set target of 3 million apprenticeship starts between now and 2020. Although there has been some progress in the numbers, one of the things we are really keen to probe today is what is happening about the quality: is it a dash for numbers over quality? We hope to hear from you about that, and we want to hear from you honestly and candidly about the challenges that you face in delivering all this.

One of the other key areas we think is very important is what this is actually delivering to the Government's productivity targets. As the NAO lays out, we have a low level of productivity compared with other countries, and apprenticeships should be about not just getting the numbers in but actually delivering on that. We are very concerned to see how that will work—how the outputs of this workforce will deliver on our wider industrial strategy and what progression those apprentices are making, to make sure that we have the high skilled population we need to deliver that.

What is interesting is that we can congratulate you on having data. We are usually berating Government Departments for not having enough data for us to follow things through. On this occasion, however, there is quite a lot of information. We may want to ask you to send some of that to us later on in various formats relating to some of our constituency focuses and so on.

I have a couple of very quick questions before I pass over to Karin Smyth, who, with Caroline Flint, is one of our main questioners today. First, the previous Prime Minister appointed Nadhim Zahawi, who is the Member of Parliament for Stratford-on-Avon, as his apprenticeship adviser. From what we understand, he no longer has that position, but I wondered whether you—I suppose it is now in your purview, Jonathan Slater—could tell us what is happening with that position, if you know.



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Jonathan Slater: I don't think that I can add usefully to the Prime Minister's statement. Nadhim Zahawi and David Meller, one of our non-executives, used to co-chair the Apprenticeship Delivery Board. David now chairs that. The work continues.

Q2 **Chair:** So Nadhim Zahawi has gone and—

Jonathan Slater: He no longer fulfils that role.

Q3 **Chair:** There is no plan to replace him, as such.

Jonathan Slater: I haven't got anything more than the Prime Minister's statement.

Q4 **Chair:** Okay. We just have to get these things on the record. I will introduce the witnesses formally in a moment, but I want to welcome Peter Lauener. You are a busy man—even busier since we last met. I think at the latest count you have three jobs at the moment. Could you perhaps explain to us what those jobs are and how you are managing to cope with all three?

Peter Lauener: I am the chief executive of the Education Funding Agency. I have been since 2012, and before that—since 2010—was chief executive of its predecessor organisation. I was appointed to be chief executive of the Skills Funding Agency in autumn 2014, so have been doing that for two years. Those jobs were formerly in two separate Departments; they are now both in the Department for Education.

The recent additional appointment that you are referring to is as interim chief executive of the Institute for Apprenticeships. I should make clear that that is to help with the set-up job, and there is a full-time deputy chief executive, so I am doing that two days a week. I have quite a lot of experience of setting up organisations.

In previous jobs, I have had a lot of experience of working directly with employers, so I have something to contribute. This is during the set-up phase. It would not be appropriate or sensible to combine these roles when the Institute for Apprenticeships is up and running, because of course it is designed to be slightly separate from the Government, but in the set-up phase I think it makes some sense. There is a little bit of working out of roles between the Skills Funding Agency and the Institute for Apprenticeships, so I can talk to myself when that needs sorting out.

Q5 **Chair:** When the institute is properly established, will you be losing some of the responsibilities you had before you took on the interim role?

Peter Lauener: The permanent chief executive of the Institute for Apprenticeships will be appointed at some point next year. The final timing is not decided, but—

Q6 **Chair:** You could be triple-hatting for some months.

Peter Lauener: Certainly until April 2017.



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Jonathan Slater: I asked Peter to lead on the set-up, for the reasons that he has described. We have board appointments going on at the moment—we are selecting the board members—and once the board is in place fully, with a substantive chair, they can crack on and appoint the chief executive they want. I am just asking Peter to be involved from the beginning to set things up so we can hit the ground running when the new board appoint their new chief exec.

Q7 **Chair:** I presume you have compared notes beforehand, and that at least until April, Mr Lauener's—

Jonathan Slater: That's right.

Q8 **Chair:** It would be very helpful if you could keep us updated on the appointment process, because there are a lot of people with a lot of interest, and a lot of changes, which we will be going into in a moment.

I should formally introduce our witnesses. Peter Lauener has given himself the clearest introduction, so thank you for that. We have Sir Martin Donnelly, who is currently the permanent secretary at the Department for International Trade but is really here with his hat on as the former permanent secretary of BIS—until the summer, when the Departments were changed. That was of course one of the Departments responsible for apprenticeships—jointly with the Department for Education. Jonathan Slater is now the sole permanent secretary responsible for this new way forward on apprenticeships, so welcome to you. Is this your first or second outing?

Jonathan Slater: It is my first outing as a permanent secretary, so I am looking forward to it even more than previously.

Chair: We'll make sure we give you a good time. We have, of course, David Hill from the Department for Education. Welcome to you as well. I am going to hand straight over to Karin Smyth.

Q9 **Karin Smyth:** Mr Slater and Mr Donnelly, what does success look like for this programme, from your perspective?

Jonathan Slater: Building on the Chair's introductory comments, success means a number of things. It means delivering on the Government's manifesto commitment for 3 million apprenticeships, a significant increase in the number of apprenticeships. Success also means a significant increase in the quality of apprenticeships. That's the whole point of putting in these new standards to replace frameworks—significantly higher standards.

It is also, of course, why the money is increasing significantly. We will be spending about £2.5 billion a year by 2020, compared with about £1.8 billion from Government plus employers at the moment. You can see a 40% increase in funding and double the increase in the number. So you have got an increase in quantity and quality and in diversity with the target to increase the number of BAME apprentices.



Then you have got a broader objective to tackle skills gaps in more effective ways than the current regime, which is why we are putting employers in the driving seat, giving them the task, using their resources, to tackle their skills gaps in ways that they know better than us and better than the training providers who are in the driving seat at the moment.

Q10 Karin Smyth: Mr Donnelly, would you like to add anything?

Sir Martin Donnelly: I would just add the wider context, which I think the NAO brings out very well. We have significantly lower productivity than our major competitors—France, Germany, the US and so on—so one of the major factors in this is, and has been for a long time, our lower level of basic, intermediate, vocational, technical skills.

It is clear that having more apprentices at the standards that deliver those skills is going to help us deal with the productivity gap. Over time, I would look to this expansion of the apprenticeship programme making a noticeable and sustained difference to the UK's productivity performance.

Q11 Karin Smyth: Mr Slater, how do you propose to measure that success?

Jonathan Slater: We will measure the numbers in the way that I have described. We will be able to break down the numbers of apprenticeships by level, by sector, and be able to compare those numbers with the rates of return that are achieved through different apprenticeships at different levels.

In its last helpful Report, the NAO recommended that we should publish data on the different rates of return achieved at different levels in different sectors, which we have done. That is already influencing employers' behaviour. You can match that up against the numbers of apprenticeships of different types in the new regime and see skills gaps being addressed, as employers use their new powers to direct the funding in ways they could not do before.

Q12 Karin Smyth: If we look at figure 6 on page 24, we can see results depending on what sort of apprenticeships people do. Figure 6 shows clearly where young people starting apprenticeships do better in terms of greater income. In places like my constituency, 80% of the young people who go on to apprenticeships end up in the retail and public health sectors. They don't end up, for example, in construction, where they might have a 32% premium on their income.

How are you going to match the opportunities that come from higher apprenticeships to those young people, rather than churning them through, for example, the retail sector, where there is no differential outcome for them in terms of their future earnings?

Jonathan Slater: In two ways. The point of the new regime is to incentivise employers in the way that this regime does not, to address apprenticeships to where they will achieve the greatest return. Under the current regime it is for the training provider in the driving seat going to the employer with a proposition. In the new regime it is the employer spending their own money, armed with information of this sort which we



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put out in the public domain, and there will be more to come—that is one of the benefits of the digital system. They will be highly incentivised to use apprenticeships where the rates of return are that their highest.

We see a role for Government to support and facilitate that, which is why we went out for consultation on the proposal for 40% and 80% uplifts on level 2 and level 3 STEM apprenticeships. So there is a role for us to encourage that, and I can see us going further over time in the way that the NAO rightly identifies in its Report: an opportunity for us to be doing more of that once the system is bedded in.

- Q13 Karin Smyth:** In areas that do not have, for example, large employers that might be incentivised in the way you suggest, what is your proposal for small and medium-sized enterprises who currently do not feel that they are part of that system?

Jonathan Slater: It is true that we are taking a different approach with small and medium-sized enterprises precisely to make the system manageable for them. It is very important that the system works as smoothly as possible from day one. We are requiring a co-payment—a financial contribution—from each of them to incentivise them in the same way. We went out for consultation on a specific proposal about that and we will shortly be issuing the final funding rates, which incentivise them, albeit in a less significant way than the larger employers precisely to make the thing manageable for them in practice.

- Q14 Karin Smyth:** What is your view on trying to incentivise them by perhaps a share in part of the way the levy arrangements work so that they take on more of the training and opportunities rather than those going straight to the large businesses?

Jonathan Slater: Sorry, are you asking me whether they should be paying into the levy?

Karin Smyth: No, I am asking about using the supply chain better to encourage more people to come on to particular apprenticeships rather than it all being focused on the large enterprises.

Jonathan Slater: Please tell me if I misunderstand you. There is an interesting question about the role that subcontractors—smaller companies—play—

- Q15 Karin Smyth:** In my constituency we do not have a large employer. We send the fewest children in the country to university—we are 650th out of 650 constituencies. This is the only way that young people in my constituency have the opportunity to share in the wealth and prosperity of the city and city region. There are no large employers to incentivise in the way you suggest to bring them through, so small and medium-sized enterprises are the only way that they can get on to those apprenticeships. We know the market is not working in terms of stopping people going purely into retail, so do you see a role for sharing that problem more widely in a bigger supply chain?

Jonathan Slater: Yes. Perhaps David can follow me on the detail, but we do see and we went out for consultation on how to get the right balance between a main contractor and subcontractors in the supply chain. We have had quite a lot of feedback during the consultation phase. Again we will be responding to that shortly, but we do see a role for small employers, too.

David Hill: We have said that we are keen to develop the new funding system as it beds in to allow large employers to transfer a proportion of their levy funds to smaller employers in their supply chain. We will not have that function available for the introduction of the levy from day one. There are a number of issues we need to work through around having confidence that that can be done in a way that manages the risks of fraud etc. Hence we have set out our proposals broadly speaking to replicate the funding systems that smaller employers will be familiar with. But, over time, working with our partners in the CBI and with providers we want to scope out a model which would allow some measure of transfer to the supply to take place in a robust way.

That aspiration is there. We have said we intend to bring that on stream by the start of financial year 2018-19. If we can deal with some of the technical issues that we need to work through, we would be capable of doing it earlier as well.

Jonathan Slater: We heard that message loud and clear during the consultation and we are exploring to what extent we could do something earlier or not. We will be issuing our response very shortly. We completely acknowledge the point that is being made and we are keen to do what we can.

- Q16 **Karin Smyth:** I am glad to hear that is under such active consideration. One of the things that confuses me, being new to this area, is that I am sending my children through the GCSE route. We expect them to come out with a certain qualification at the end of it, don't we? You measure the success of schools in terms of five A* to Cs. We measure universities in terms of how they contribute, perhaps, to future growth earnings. You do not measure apprenticeships in the same way. Will the future model allow us successfully to track young people's achievement in the system?

Jonathan Slater: One of the important elements of the reform programme we are putting in place from April is that unlike the current regime, there will be an end-of-apprenticeship assessment regime, carried out by an independent body overseen by a regulator. That is an important improvement in the new regime, precisely in support of your point. You want to know that somebody has what it takes when they finish and can be approved as having met the standard through an end-of-apprenticeship assessment.

- Q17 **Karin Smyth:** Who will be accountable for that?

Jonathan Slater: The assessor themselves carries out that independent assessment. The Institute for Apprenticeships is in charge of making sure



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that the process is carried out rigorously and appropriately by an assessor with the right capability, competence and independence.

Karin Smyth: To be clear, are you saying the assessment, currently measured on starts, will be on completion and attainment?

Jonathan Slater: Yes.

Q18 **Karin Smyth:** That will be done by the assessor?

Jonathan Slater: There are a number of different measures. Just as there are—

Karin Smyth: Which assessor? The assessor in which area?

Jonathan Slater: Again, I will ask David to come in in more detail. Just as there are a number of different assessors of GCSEs, A-levels, and so on, there are a number of potential assessors of different apprenticeships, depending on the nature and the role. We have a series of those. The numbers are growing at the moment, in light of new standards. One of the institute's jobs will be to oversee that framework in the future, to make sure the right assessor is in place for the right apprenticeship.

Q19 **Chair:** May I just be clear? Is it right to say that for the new standards there is not yet one approved assessment organisation in place, Mr Hill?

David Hill: There are 19 approved assessment organisations.

Q20 **Chair:** And they are actively working now?

David Hill: There are 19 approved, which have coverage of around 40 to 50 standards—

Chair: Sorry, for a room built for speaking the acoustics are not very good.

David Hill: Sorry, there are 19 assessment organisations approved and between them they cover around 40 to 50 standards.

Jonathan Slater: So this really is a growth area. It is new. We only have the first 19—

Q21 **Caroline Flint:** Sorry, can I just go to the other witness?

Chair: Yes, absolutely.

Caroline Flint: You said they were approved and you have talked about coverage. Are they active? Are they actually live, doing what they are meant to be doing?

David Hill: Because we still have relatively few starts on standards, obviously, we only have—

Peter Lauener: Fifteen.

David Hill: We have had a very, very small number of completions.



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Peter Lauener: Fifteen apprentices have passed the new standard and there was a ceremony in this House a few weeks ago to mark the occasion.

Q22 **Chair:** Who has approved them?

Jonathan Slater: The first assessor body. As the standards come in to place and as people go through them, by the time they get to the end, you need to have an assessor in place to do it. They have only just started.

Q23 **Chair:** Is that one assessment body that has approved those 15?

Jonathan Slater: Yes.

Q24 **Chair:** So one has done its job, because they have got through the system.

Jonathan Slater: Yes, because we have only just started.

Q25 **Karin Smyth:** Can I take a very simple look at this? If I send my child through the GCSE route, I understand what that measure of success is when he—I only have boys—comes through his GCSEs. I understand what happens when they get to A-level. I understand, should they go to university, because the university tells me, what their marketability is and what their future income stream should be. How can I tell what happens to my child as they go through this new route? Is the measure that they complete it? Is the measure based on their future earning potential, as we have seen in figure 6? Is it based on a standard that is recognised? Can you help me with that?

Jonathan Slater: If you were to send your son on an apprenticeship in plumbing or butchering or whatever, there would be a standard set that was agreed by employers, and by the Government currently and in the future by the Institute for Apprenticeships. There would be an agreed standard, depending on the level. It could be a level 2 or a level 3 or it could be a university level apprenticeship. The standard is agreed and confirmed. The assessment body tells your son at the end of the apprenticeship that he has met that level and now he is an approved, say, engineer, having passed that apprenticeship.

Q26 **Karin Smyth:** That is accredited by this new institute?

Jonathan Slater: The end-of-apprenticeship assessment is by one of a number of assessor bodies, of which we currently have 19, but we will need a lot more as we build up the standards.

Q27 **Karin Smyth:** But is it the institute that will set the standard? For example—again, I will put it very simply—I understand that different people assess GCSEs, but I also understand that an A* and a C is an A* and a C. Is that what the institute does?

Peter Lauener: The institute is responsible for making sure that the whole standard is met, and that includes having an organisation to do the endpoint assessment. The institute is the regulator of the whole system in that respect.



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The endpoint assessor could be any one of a number of organisations: it could be a qualification awarding body; it could be a professional body; it could be a university; it could be an employer body. In extremis, it could be the institute itself.

- Q28 **Karin Smyth:** I get that. What I am trying to pursue is how I as a parent understand in order to support my young people in going through this. I think that is an issue of feeding into this and agreeing that this is an important route for parents to make that step. So, how do I know what my child is getting at the end of that? But, equally, how do you then judge that it will meet improved productivity for this country if you do not understand whether it is an A* or a C across the country?

Jonathan Slater: We are making sure that the standard that any child or adult going through an apprenticeship would achieve meets the requirements of employers in that field for work. They set the standard, through our engagement, overseen by the institute. So, once the apprenticeship has been achieved—and it is a pass/fail, so you either achieve the apprenticeship or you do not—you are now ready, complete for that work, for that role.

- Q29 **Chair:** We get that, but Ms Smyth's point is about how you know the value of that compared with the other options available.

Jonathan Slater: I apologise. I misunderstood your question. One of the things the NAO recommended last time round was that we should collect data on what actually happens to people who pass these apprenticeships and compare them with what happens to people who fail them or do not take them. It was an excellent recommendation and we implemented it, so now you can see the sort of data that is set out here—that you quoted.

The reason to do a level 3 construction apprenticeship, and pass it, is that you will be 30% better off through life than if you don't because your skills will be rewarded by construction employers. That is the beauty of the system, and it will be even better in a world in which the employers are in charge of that system because they are going to be recruiting the apprentices they need and filling the jobs with them accordingly, and therefore skills gaps will be filled.

- Q30 **Karin Smyth:** Mr Lauener, do you want add something?

Peter Lauener: No. Happy to enlarge on anything.

David Hill: To compare and contrast from the system we are moving away from, if we take the example of plumbing, at the moment, there are something like 33 different qualifications that a prospective plumbing apprentice could do under the frameworks. This does not really answer the question of a parent, which is, "Do you know what your child is getting out of that?" because there is such confusion in the system about the value of different types of qualifications for notionally the same occupation. So the new system of standards is based on the principle that we should have employers design the skills, behaviours and knowledge that they regard as essential for that young person to be competent in the job. That is tested,



in that it would be subject to scrutiny and challenge from the institute, and then subject to a rigorous endpoint assessment. But the system is intended to give a parent, and indeed an apprentice undertaking the apprenticeship, confidence that a group of employers who really know about what it takes to be successful in that occupation have worked together to design that and write that into the professional standard for that job.

Jonathan Slater: With one plumbing apprenticeship.

Q31 **Chair:** What Ms Smyth is driving is that if you want to go to work for Jaguar Land Rover, you have to go through more hoops than you do to get to university, and you know at the end you have a very good job with a very good salary and good prospects. I think what Ms Smyth is pushing for is similar clarity.

If a parent and young person, or even someone over 24, were deciding right now and were going for an apprenticeship, when would it be apparent? When will you be able to give that sort of data? We have some of the income data here, in figure 6, but for some of these apprenticeships going up through higher levels, when will you see the targets reached so that you can actually say, "This is what will happen if you take this sort of apprenticeship"?

Jonathan Slater: I think future 18-year-olds could face a really interesting choice between a traditional degree with loans and a higher level apprenticeship with a job. We will be publishing data right the way through on the outcomes in both cases. Different outcomes will make sense for different kids in their circumstances, but they will be able to see that information, based on data about what happens to people going through the different courses of action and the different universities, and make their choices accordingly.

Sir Amyas Morse: Thank you for kindly referring positively to our Report. At 3.9 on page 30, we point out that at the moment, notwithstanding that people are setting those standards, there are many competing standards being set. It could end with a pretty big blizzard of standards. Have you thought about you might get that down? It must still be pretty daunting for somebody. It is a positive move that you have made but how do we get these standards down to a manageable number?

Jonathan Slater: We have found, as you say in your Report, that in the early days some standards were rather narrower and more overlapping than they should be, as you set out. That is why the institute has a role in challenging back and consolidating where possible to make it sensible. We have identified some opportunities and it is definitely our task to make this as easy as possible and navigate through it.

Sir Amyas Morse: What leverage have they got to do that? Now you are going to be doing this job. When you are not the shadow, how are you going to get your people to listen to you?

Peter Lauener: The institute will have the approval role for standards. So they have to approve every standard.

Sir Amyas Morse: Including the existing ones?

Peter Lauener: They will come up for renewal. One of the most important things that the institute will have to do is pool the whole system of standards, establish a framework for it, a review process and some really smart processes that make the approval process as quick as possible, and fuel the whole system with really good information for employers, parents and young people.

If I could add a further point, which is the point I wanted to make earlier. We ask young people quite often what they think of their apprenticeships, and the figures are quite good: 89% of apprentices tell us they are satisfied with their apprenticeship; 97% say they can do their job better as a result.

Q32 **Chair:** You mention those figures but there is a very interesting figure about the number of people who didn't even know they were on an apprenticeship. I can't remember the figure now.

Caroline Flint: A third.

Peter Lauener: There will be some, particularly older apprentices, where the apprenticeship is associated with young people. The employer training older workers as apprentices might not be so clear to those that they are apprenticeships. Equally, among the first 15 who went through the standards ceremony in this building a few weeks ago, there was a father and a son and the father was very clear that they were on apprenticeships.

Chair: I know that 15 is a success but it is a small success. Good for those individuals but we're trying to get into bigger numbers here.

Q33 **Caroline Flint:** Mr Slater, would you agree that this is an artificial market that we have here? In the sense that, if you look at the USA, France and Germany, which have long-standing schemes that involve levies, they also, alongside a levy structure, are clear about the skills gaps they are trying to fill and the challenges to get more diversity in the workforce. I will come on to that shortly.

Do you agree that this is an artificial market and there is a responsibility on Government Departments to ensure that it is managed in a way that we get the outcomes that we want? There are considerable concerns that the 3 million target is driving a way of doing things that may not meet what trade unions like Unite and my own chamber of commerce in Doncaster have said, and is not driving people towards those STEM subjects where we know that, with infrastructure coming down the road, there are severe shortages. Do you see your role as managing this market?



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Jonathan Slater: I definitely don't see it as a free for all. I definitely think Government has got an important role to play in making a success of this system. Absolutely. If there were a tension between quantity and quality, I would be anxious. But actually, as I tried to get across earlier, we are increasing both. We are providing opportunities for both in parallel.

I think everybody would agree—it is not contentious—that the numbers of people going through apprenticeships in this country are significantly lower than in our European counterparts. Everybody thinks it should go up and they also think that the standards should go up. We want both quantity and quality.

- Q34 **Caroline Flint:** We all want more apprenticeships and we all want good standards, whether that is in retail or the care sector or engineering. But we also know there are particular skill shortages in certain sectors that are linked to good pay and good work progression that are not being filled. For example, the Mineral Products Qualifications Council submitted evidence to us. Their demographics show an average age of 55.7 years, 98% white male. Like other areas, they are facing a massive skills gap crisis.

Within the 3 million, how much is the DFE able to look at making sure it can be managed in a way that we do not have perverse consequences of maybe in retail filling a large percentage of those 3 million apprenticeships, but not providing for sectors like mineral products and other areas that need those jobs and skills coming down the line? How are you going to do that?

Jonathan Slater: Again, I will bring in David for more detail, as you will find helpful. That is why we have 15 in the consultation process—15 different funding regimes for 15 different types of apprenticeships.

- Q35 **Caroline Flint:** What weight are you giving to linking that to skills shortages?

Jonathan Slater: We are taking a suitably measured approach to this in which we do not try to invent it all from Whitehall in advance of the system going live. But we do take the first step into this market by identifying 40% uplift and 80% uplift in STEM subjects at level 2 and level 3 respectively to incentivise those sorts of apprenticeships. We do see it is not just a market. The Government want to direct resources in ways that they see as beneficial, in light of the skills gap in the economy. I would see us doing more of that over time, once we have the system up and running.

- Q36 **John Pugh:** Is that a target for the programme in the sense of success and failure? In other words, if you fail to get the right number of people doing STEM courses, even if you have 3 million people doing apprenticeships, on that measure the programme would be seen to be a failure. Some people are saying you should have quality targets as well as quantity targets.



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Jonathan Slater: I am not proposing, and I do not think the NAO is either, that we in Whitehall should define a target for the number of—I don't know—plumbers or engineers in a particular part of the country. That would be us second guessing.

Q37 **John Pugh:** That would be silly, but you could give a broader and a better target than that, couldn't you?

Jonathan Slater: Absolutely. We are saying that we want employers to use the scheme to tackle their skills gaps and we will incentivise the more value-adding apprenticeships—the higher level ones—by sharing information with employers to encourage that and by the way that we construct the scheme.

To bring it to life, we reported that a level 2 apprenticeship gets you a rate of return of about 11% and a level 3 gets you about 16%. During the Parliament, there has been a significant increase in level 3 apprenticeships and no increase at all in level 2. That shows, as Caroline Flint said, if you design the system, you can get particular results from it encouraging us to go in that direction. I think that is the right, middle way between completely hands off versus Whitehall, on the other hand, discerning the numbers.

Chair: We will come on to that.

Q38 **Caroline Flint:** That is helpful. You recognise there is a role for your Department to make sure that, in the regions within regions, they are aware of what the skills shortages are and what needs to be supported through the LEPs and others working in this area. Is it fair to say that it is important that you provide that?

Jonathan Slater: Yes, I have given you examples of the way we design the system to achieve certain outcomes. The fact that we are proposing a higher level for 16 to 18-year-olds will be a different example of that. As the Government develop their industrial strategy and set out the particular approach they want to take, the good news is that—assuming I pull this off—I will be sitting on top of an apprenticeship scheme in future which can be used by Government working in partnership with employers to direct accordingly. I will stand ready to support that industrial strategy as it develops.

Q39 **Caroline Flint:** May I ask one more question around diversity before I go on to look at risks and fraud? You mentioned earlier, and obviously we welcome the opportunity to encourage more people from black and minority ethnic backgrounds into apprenticeships. Why isn't diversity within the sectors between men and women given some attention? We know there is huge job segregation in our country, with women often ending up in jobs that are traditionally low paid. Looking at the Mineral Products Association, for example, it is 98% white male. Why isn't there more of a push to encourage those providing apprenticeships to seek out women to fill those jobs and, vice versa, maybe for some men to go into the more female-dominated sectors?



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David Hill: It is true that we don't have a hard gender target in the same way that we have a target for raising BAME participation.

Q40 **Caroline Flint:** We are 50% of the population.

David Hill: Indeed, and 53% of apprentices are women.

Q41 **Caroline Flint:** But where are they?

David Hill: You are absolutely right. It is very variable across sectors, and you do see sectors with—

Jonathan Slater: I think this would be a good example of what I was saying about our having a tool here that can be used to help the Government to achieve—

Q42 **Chair:** Are you going to set a target for women?

Jonathan Slater: I am saying that we don't currently have one. We have not been set any targets for that.

Chair: Do you think you should?

Q43 **Caroline Flint:** In some sectors I can think of—energy, aggregates, infrastructure, HS2 and manufacturing, and what have you—they all have a workforce profile that is often dominated by white men who are all advancing in years, and they are all worried about having to fight like ferrets in a sack for a small number of people. If they are not looking beyond young white men and are not looking to women, we are not going to fill the shortages. Would you be prepared to look at this, Mr Slater? Given that you acknowledge that this is a managed market in some respects, maybe you can think about how you can influence this.

Jonathan Slater: I am a white man of certain years who is a loyal servant of the Government—

Q44 **Caroline Flint:** Which is run by a white woman.

Jonathan Slater: I have a daughter, and I am quite concerned about her future job prospects. I definitely don't want her to be constrained by stereotypes, so I completely get your point. What I am doing is designing a tool to achieve a certain number of success measures today—these are the facts of it—that can be adjusted and used to achieve other social and economic objectives over time.

Q45 **Chair:** Ms Flint has raised a very important point. Until she raised it, was it in your mind? We recognise that you are building this, but was it an important priority for you as you designed it? Mr Hill is nodding.

Jonathan Slater: I take the point that is being made. It is beyond my pay grade to commit to a change in Government policy.

Q46 **Chair:** Mr Slater, I am going to lend you my box set of "Yes Minister" because there is a wonderful episode that this really relates to. I might seriously lend it to you rather than delay the Committee.



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David Hill: Only to say that one of the things we have found most powerful is having some really good examples of women, particularly young women, who have done apprenticeships in sectors that perhaps don't—

Q47 **Caroline Flint:** It is not good enough.

David Hill: The apprentice of the year last year was in engineering, so I was simply—

Q48 **Chair:** How many like her are there?

David Hill: In a lot of our current communications—

Q49 **Caroline Flint:** Can I give an example? About six months ago I visited a provider in my constituency—really lovely people. It was not so much engineering as a technical trade. They were lovely, but it was all male and all the apprentices were male. When I raised the issue of young women, to be honest they didn't have much of a clue about how to go about it. You know that, at local level, word of mouth and what have you act against people from BAME communities or women even being considered for such things. You may not have the answer today, but would you be willing to consider having a proper look at this? We are not going to fill the skills shortage and won't be supporting women in work, and supporting them to move from low pay to better pay, if people like you are not addressing these fundamental problems in our labour market.

Jonathan Slater: I can definitely say that my answer is an unqualified yes.

Peter Lauener: May I make a point on the same topic? In the Skills Funding Agency, our National Apprenticeship Service has recently done some employer insight work. We approached the 1,000 potentially largest levy payers a couple of months ago and got some pretty encouraging results, including on diversity. Employers are interested in advice on diversity, and I sometimes think there is more of an open door on these matters. I have seen some very good examples, and David quoted one example of UK Skills, and indeed WorldSkills, where young women have been very successful in what are seen as traditionally male occupations.

Chair: We might do a special viewing of this "Yes, Minister" episode. Bridget Phillipson, perhaps you could carry on.

Q50 **Bridget Phillipson:** We all want apprenticeships to be as inclusive as possible. When it comes to young people with disabilities and how they are supported into apprenticeships, the Maynard panel recommended that it could be incentivised through funding models, ensuring that young people with disabilities get the same opportunities to start apprenticeships. Could you set out where we are with that and what you will be doing to ensure that young people with disabilities have the same opportunities that we would want for all young people?



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Jonathan Slater: David, I'm going to ask you to update us on where things have got to. It has been a very helpful Report, identifying a really good opportunity for using apprenticeships in just the way that we were describing earlier. David, do you know where Maynard has got to?

David Hill: The Government accepted all the recommendations of the Maynard taskforce. We are working closely with the Department for Work and Pensions on that now. Specifically in relation to funding, we have set out in the proposals that went out for discussion in August essentially matching the incentives on offer for 16 to 18-year-olds for those with a declared learning difficulty or disability who have an Education, Health and Care Plan¹. We are obviously taking feedback on that now, so that will be included in the final package when Ministers announce that shortly.

Q51 **Bridget Phillipson:** Could you explain what you mean by matching?

David Hill: For example, we would make available the same incentives for those with a learning difficulty or disability who have an Education, Health and Care Plan² as would be on offer to take on a 16 to 18-year-old. So the £1,000 additional to a provider and to an employer. Obviously, we are consulting on whether that is the appropriate level of provision as well at the current time.

Q52 **Bridget Phillipson:** More generally, what more is there? Funding aside—and I wouldn't know whether that addresses the issue and is the right incentive to support young people with disabilities into apprenticeships—but more generally, it is not just a question of funding, is it? What more can we do to support those young people into apprenticeships?

David Hill: For example, Maynard made some recommendations around the extent to which the requirements for apprentices to have functional English and maths skills could present a barrier to some people with learning difficulties taking up and being successful in an apprenticeship. We accepted that recommendation. We accepted that in those defined cases we could look to adapt and flex the requirements around functional English and maths skills, so that we are not throwing up an unintentional barrier to people with LDD being successful in an apprenticeship.

Q53 **Bridget Phillipson:** More generally, I hear from local young people and their families from a range of backgrounds that they often simply don't know where to go in terms of apprenticeships starts. It is not just about employers; it is about young people and their families. They are interested in apprenticeships and think it might be an option for them but there is a severe lack of guidance and information available. Often, as referred to, it is about word of mouth. The best examples I've heard are of inspirational teachers who have suggested that young people might apply to a certain employer. Beyond that it seems pretty patchy.

¹ Clarification from witness: 'who have an Education, Health and Care Plan'

² Clarification from witness: 'who have an Education, Health and Care Plan'



David Hill: I think that is a fair challenge. We do get quite a lot of feedback from young people who have been successful, got on to apprenticeships, who say they had found out about it because they had a friend or someone in their community who'd done an apprenticeship, not necessarily from their school. There is an issue to be tackled here. It is one of the things that the Careers & Enterprise Company has been set up to do, with a network of around 1,000 advisers working with schools to ensure that young people starting out have the full range of options presented to them.

It is also interesting, with the introduction of the levy, and a broader range of employers having a real interest in taking on apprentices for the first time, that we are starting to see more big employers coming to us to say, "We want to get more involved in marketing ourselves in terms of what we could offer to people entering the labour market."

- Q54 **Bridget Phillipson:** We have tended to focus on a lot of the traditional areas where apprenticeship numbers are higher, but in areas such as Sunderland the world of work is changing and the industries we have are changing. We have a big tech start-up sector with lots of software companies, and local businesses there tell me that young people often do not have the skills they need to compete; moreover that there is a lag, not just in terms of young people having the skills for the jobs but in Government and others and in the curriculum within schools and apprenticeships, in recognising the skills that those young people will need. There is often this delay; but what can we do to deal with the changing industries that we have around digital software? How do we address that skill shortage? It is not something that has really been effectively dealt with, as far as those businesses are concerned.

Jonathan Slater: That is why we are putting in place these new standards, which are definitely going to cover digital—all new employment opportunities. We want the employers to be in charge of setting those standards—identifying the skills that the kids coming through will need. That is precisely at the heart of the reforms.

- Q55 **Bridget Phillipson:** And they will be frequently reviewed? Almost as soon as they are written, they are out of date. With the way the world is changing, employers have said that almost as soon as you develop something, things then move ahead.

Jonathan Slater: Yes, we need to make sure that the standards are sufficiently flexible, both so that they can be changed over time and so that they don't go into too much detail. One of the points of the standards is that they are simple—two pages: these are the key requirements to be able to do the digital role that you are describing—so they are capable of being used as a living document, rather than being out of date as soon as you start.

Peter Lauener: Also, for parents, young people and adults we run a national helpline, from 8 am to 10 pm seven days a week, to tell people about apprenticeships. People can go on the website to look for an



apprenticeship and we are able to track the amount of interest. If people apply and are not successful and there is an apprenticeship in a similar area, we might nudge them and say "Have you had a look at this one?" and "Look at that." Over the summer, we have been running an apprenticeships campaign that some Members might have seen, which is called "Get In Go Far". There have been 1 million online views of video content and 850,000 visits to the campaign website, and some pretty good feedback from people who have seen the campaign. It changes their views of the potential of apprenticeships. There is a lot more to do.

- Q56 Karin Smyth:** I have seen those things, and they have been good. The feedback I have had is that if people get there, the support on some of those websites is very good. The issue is them getting there, isn't it? You have the schools cartel that is not particularly encouraging post-16s to go on and take this route, and parents, as I mentioned earlier, not being confident about the route. What is your view about what was suggested to me about the UCAS system for apprenticeships, so that there is one port of call for getting people through the system? Are you actively considering that?

Jonathan Slater: The most powerful thing I have seen to make it easy for young people—people of any age—to see what is out there of different sorts, that they can make use of, is the new digital system that comes in in April 2017 for levy payers, but is already available for people to see what is out there right now. I have used it myself. You just type in your postcode, your interest or whatever you want, and what is out there immediately comes up.

- Q57 Karin Smyth:** But it is this issue of sending off 10 or 15 different forms or whatever for perhaps a not terribly motivated 16-year-old, for example—they might be 24—and being helped through the system, as you are through UCAS, to get your statement and all that sort of stuff; and then a portal. Is that something that at least in the future you are thinking about, or is it not a runner at all?

Peter Lauener: With the digital apprenticeships obviously it will increasingly move to online applications, which young people tend to be very happy to use, and very familiar with. I think you are right; there is more to do. With the National Careers Service, which we run as well, we reach large numbers of people. It is not primarily for 16 to 18-year-olds, but when a 16 to 18-year-old or their parent phones up, we can refer them to local providers, and, again, we are getting quite good feedback from that. We also notice that there are times when schools are using the material on the National Careers Service and the National Apprenticeship Service for in-school sessions, and that is great; but it is not consistent enough, is it?

Jonathan Slater: I take the point, but it is certainly an awful lot easier than it has ever been in the past. You go online and click straight through the application there and then. It's good. If the question is whether one could go further and help people make five applications at once, UCAS-style, that is not something that we have on the stocks at the moment,



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but I am happy to take away the question about whether one could make it easier. I take your point about 16-year-olds, but it is pretty easy to apply online now for any apprenticeship in the country.

- Q58 Philip Boswell:** I would like to focus on the distribution of apprenticeship types with a focus primarily on retail. From May 2010 to April 2015 there were more apprenticeship starts in the retail and commercial enterprise sector than in the science and mathematics, engineering and manufacturing technologies and construction planning and built environment sectors combined. Can you explain why there have been seemingly disproportionate numbers in apprentice starts in the retail and commercial enterprise sector?

Jonathan Slater: That's a great reason for the change that we propose to make. I am not saying that that regime is what you want to see. It is a consequence of a system where the funding goes to the training provider seeking an apprenticeship from any employer who is prepared to say yes because the Government is paying. That is the current regime.

In the new regime, employers spend their own resources to fill their own skills gaps with apprenticeships, which should fix that problem, but as we were saying earlier, we will have a chance to see online in real time what is actually happening in practice and will adjust the funding regime accordingly in the way that we are already proposing for STEM in future.

- Q59 Philip Boswell:** We will follow this and other issues that I will raise later. We talked about productivity. I accept it is perhaps not the future, but how has this seemingly disproportionate number of apprenticeship starts in the retail and commercial enterprise sector contributed to increasing productivity, given the skills shortages in sectors such as engineering, which has a much smaller number of starts? I just don't see how it can, and presumably you would concur.

Chair: Maybe Martin Donnelly can say something about that.

Philip Boswell: More specifically, Martin, you described narrowing the productivity gap as part of what success looks like in answer to earlier opening remarks. Given that most engineering, marketing and technologies apprenticeships are at a low level, with only 2% doing levels 4 and 5, exactly how do you expect such low-level apprenticeships to narrow that gap between the UK and the more advanced European nations such as Germany and France?

Sir Martin Donnelly: If I can make two points, building on what Jonathan has said, I think we would all agree that it is a good thing that we have apprenticeships in the retail sector. This gives a lot of people the chance to build their skills and the chance to get into better paid jobs, and the retail sector is an important part of the economy. The point that you are rightly making is that we need more apprentices in some of these high-value engineering and related areas, and also in the tech sector, as Bridget Phillipson correctly mentioned. It is worth saying that developing national tech colleges and the coding colleges such as the Lovelace college in



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north-east London is one other way that we help to bring people into that and make them ready for the right sorts of apprenticeships.

There are two things we have to do. First, we have to recognise the scale of the problem and that it has been there for a long time. There are diversity issues as well as a lack of skills. Secondly, we must recognise that the levy system, as Jonathan said, gives employers for the first time an incentive to use the funding to train or risk losing it to others. This gives us a chance to really scale up in a way we have not been able to before. Ultimately, it has to be the employers who provide those jobs because, of course, every apprenticeship is a job.

- Q60 Caroline Flint:** On how the apprenticeships are being developed, Unison has provided some information that says a third of NHS employers are hiring apprentices at the minimum rate of £3.30, despite provisions to pay them more. Unison says there is a mismatch between available apprenticeships at levels 2 and 3 and areas with the greatest skills shortages, such as nursing, so the NHS will struggle to recoup its levy contributions and the funds will end up with other employers or the Treasury. Are these problems that seem to be occurring on the radar?

Jonathan Slater: The new regime certainly is requiring employers, including the NHS and schools, which I am responsible for, to think really carefully about how they use their levy to train up their employees for the future. That is work in progress for them all, and that's sort of the point. In the old system, there was no incentive for them to think, "It's my job to invest a certain part of my payroll in training my people." They would be looking elsewhere more than they would be looking at training up their own people. Now, we are saying to the NHS and to schools—to all employers—"You're putting in the money. If you don't spend it on training up your people through an apprenticeship regime, it is going to go to somebody else." What you are being told is that they have not yet got on top of that. I am glad that they are thinking about it, because we are definitely trying to incentivise them to invest in a way that they have not done before.

- Q61 Caroline Flint:** I want to go on to your role in identifying risks, because this is a massive Government initiative. There is a lot of fanfare about the 3 million apprenticeships. I think across the parties we all agree that for whatever reasons, the value and volume of apprenticeships declined. I have my own views on that, but just on the levy, there are 6,500 businesses in the Doncaster economy and about 6,000 of them employ up to 10 people. Only 35 businesses employ more than 250 people, so that is a small number that are going to be directly affected by the apprenticeship levy. Given what you just said—if the bigger organisations don't use it, they lose it—the concern of my chamber of commerce is that very little discussion is going on at the moment about how you make sure that that smaller SME centre are encouraged to think about upskilling and to look at taking on apprentices and how they work with the LEPs and others. This is my own chamber of commerce. I am sure the situation is similar in other areas, particularly small-town Britain, which does not have big cities, with the big employers. What are you doing now to look



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at the risks of those areas, those types of business, being left out completely and there not being enough engagement to encourage them to take on the responsibility of upskilling their workforces?

Jonathan Slater: We are trying to make it as easy and simple as possible for small employers, without the resources of large ones, to operate in this new world. In particular, we are saying in the consultation documents—we are shortly to announce the final conclusions—an apprenticeship is free if you employ fewer than 50—

David Hill: If you are an employer with fewer than 50 employees.

Jonathan Slater: If you employ more than 50 but you are still an SME, you only put in 10%, and we are not requiring them to operate the digital levy system, to make it as simple as possible. So they get access to the new standards, higher quality, but they put in either nothing or 10%, depending on their size. We are keeping it as simple as possible for them to operate, and the feedback we have had on that proposal for consultation has been positive.

Q62 **Caroline Flint:** That is helpful, but what is your sense of businesses being aware of this? In the timescale you have set yourself to achieve the targets you have set for the number of apprenticeships and so on, are they going to be on the ball to do it? Another figure from my own chamber of commerce reckons that only 40% to 50% of businesses have an awareness of or interest in the apprenticeship drive. What you are offering is great, but if the business communities out there do not know about it or maybe struggle to engage with it, how much are you making sure that that part, which I think is your role as a Department—

Jonathan Slater: Of course it is.

Caroline Flint: I hope it is your role.

Jonathan Slater: It is definitely our job to make sure that people—

Caroline Flint: How much are you making sure that it is working effectively? It can't be a case of, "We shall build it; they shall come," because if they don't feel engaged with part of it, they won't.

Q63 **Chair:** Can I just pick up on something? You have acknowledged, almost without having to answer, that is your role. You say it's your role, but is it Government's role? The Department for Education, with all due respect, is probably not the best Department to liaise with businesses. Surely that would be—whatever the business Department is now called—Sir Martin's former Department.

Jonathan Slater: "BEIS" is the attractive word you are looking for.

Chair: Is that what you're calling it in Whitehall right now?

Jonathan Slater: Business, Energy and Industrial Strategy is the new Department that leads on business. I am not claiming the whole territory for myself, but I am accountable for the delivery of the apprenticeship programme and it is my job to make sure that people know about it. And I



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am completely with the Member that we need to do more on communicating this programme.

It is true that at the moment we are focusing our communication on those organisations that are going to go through the biggest change, and the organisations that are going to go through the biggest change are the 20,000 that are going to be paying the levy. The other 230,000 employers of apprentices, who are not paying the levy, are not going through much change so there is not an enormous amount to tell them about April 17, precisely because we are keeping it simple for them. But, definitely, we need to communicate the new regime more effectively to everybody. The campaign that Peter described is just the start of that; we have got a lot more we need to do.

- Q64 **Chair:** Sir Martin, your former department—whatever it is called now—what were you doing to get the message out to businesses when you were there, when it was still BIS?

Sir Martin Donnelly: It was an important part of industrial strategy through the various sector groups that we had set up, the question of skills and how you reached out. As Caroline Flint has said, also trying to connect with the LEPS, with chambers of commerce, working with businesses on the ground. I would honestly say: this is a long haul and we all have a responsibility. We inside the civil service, have all got our apprenticeship targets, which we are setting out to meet. I am pleased to say my Department will meet our target by next month. But, going on to the ground, I remember visiting an engineering company in the north-west that had young women apprentices. The challenge had been getting the first ones in because nobody wanted to be the first non-male apprentice in the organisation. You had to work with the schools, you had to get a group of young people who wanted to come in. We have got to make sure that those sorts of active process are being supported, at all levels.

- Q65 **Caroline Flint:** So why won't you set a target then, to force that, drive that? You are doing it for BAME apprenticeships from what I can see—

Jonathan Slater: I think I have taken away your challenge to look at what we might do in the case of gender.

Sir Martin Donnelly: Could I just briefly add one other thought on that, which is that transparency is very important. Publishing figures about the make-up of apprenticeships in different sectors, in different companies, helps us to focus on what more needs to be done.

- Q66 **Chair:** Sir Martin, "transparency" is a word we love here. If you are doing it, then we are—

Peter Lauener: One further example: the work we do now with small employers. I referred earlier to the National Apprenticeship Service helpline: we have one helpline number for parents; we have another helpline number for business. In June, 1,667 employers contacted that business support team interested in apprenticeships and 703 of these have decided to have an apprentice, generating 1,347 starts to date. Just one

month's business there and it is only part of the story: there is much more to do.

- Q67 **Caroline Flint:** I think it is really helpful to have the data and I think it is acknowledged in the NAO report. In this Committee we are often asking, "Why aren't you collecting data", and you are collecting data.

I would now like to go on to how you are using that data to assess the risks to the programme. Within that is fraud as well, and my colleague will want to come in on that too. So, my first question is that there is a concern—and in paragraph 19 the NAO point this out—about why, despite there is data in other—

Chair: What is your page number?

Caroline Flint: Sorry, that is page—*[Interruption.]* That is page 10, thank you.

Chair: Glad to know you have all done your homework.

Caroline Flint:—about the need to establish what information you are going to need to monitor key behavioural risks and spot the signals early so you can take action when the unforeseen consequences sometimes happen. That is part of what sometimes happens with big programmes. Can I ask why it seems you still do not have the data you need to effectively monitor risks to the programme's success and what are you doing about that?

Jonathan Slater: Can we rejoice—perhaps it is too strong a word—in the first sentence of page 10? I do not know how many NAO reports you have read, probably more than me. I do not read many that say that "DfE is managing individual risks associated with delivery of components of the current change programme in an appropriate way." I do not take any personal credit for it because I have only just taken on the role, but the NAO have looked at this in detail and they say that we are managing individual risks in an appropriate way, which has got to be a good news story. It is particularly because of the number of risks, to which you quite rightly refer, one of which is to fraud and gaming. The recommendation that the NAO helpfully made in that space, we have implemented. Peter can talk you through this in more detail if you would like, about the SFA's role which is essentially to identify, say, collusion between an employer and a training provider.

To take one example of the sort of gaming you could see, make sure they have got the right sort data analytics in place to spot unusual patterns of behaviour, send in an audit team to complement the standard, random audits that they do, to make sure that that sort of thing is not happening. But that is just one risk out of, I think, 11 such risks that Peter identified that you need to manage.

- Q68 **Caroline Flint:** That is good that you have identified these different risks. I know a group has been set up with a central programme management office and the first member of that team took up post in July. How agile



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are you going to be with this information to bear down when some day you start getting the data seeping through, whether from apprentices or others that some problems are occurring here?

Peter Lauener: May I pick up the last sentence of paragraph 19 that you referred us to, which refers to individual learning accounts, which feature from time to time in National Audit Office reports. I was involved in clearing up some of the problems in individual learning accounts in 2001. There is a lot more in the rest of the report in chapter 3. If there is one part of this that I am absolutely determined to make sure we have good anti-fraud anti-gaming measures in place, it is this area because of individual learning accounts.

Q69 **Caroline Flint:** Can you give me an example of something from individual learning accounts that is actually plugged in this new scheme and won't happen.

Peter Lauener: The biggest single lesson from individual learning accounts was that there was no control over the number of providers and the type of provider who took part in individual learning accounts. I can remember the number even now—8,910 providers were registered to offer individual learning accounts and there was no quality control or even financial barrier to those providers joining. We are absolutely clear that we need very clear criteria. We consulted on this over the summer for providers that should be on the apprenticeship register.

We expect more providers will be coming through, because we are working through arranging some subcontracting. We think some existing subcontractors will want to register to be apprenticeship providers in their own right and that is fine as long as they meet the criteria. So we have consulted on the criteria and we will issue the final version shortly with other material that is due to be published. That is the biggest single change.

If I can give you two or three other things which pertain directly to the things we are putting in place. Going back to 2001—quite a long time ago—the programme management kind of stopped when the individual learning accounts started. I am absolutely certain that David will be continuing with our own responsibility for the programme for quite a while. It will be some time before we get to normal business on apprenticeships.

Thirdly, after the register and programme management, the contract management was not seen as sufficiently important. We have built up skills in the Skills Funding Agency to manage contracts and we will have contracts with providers and employers as back-up to this with requirements and stipulations.

Fourthly, the individual learning account programme did not use management information very well. We have given a lot of thought to the management information we will use. We will have a lot more information coming through because of the way we will be interacting directly with employers and the digital apprenticeship service. We are developing data



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and analytical techniques that we use in the Education Funding Agency and the Skills Funding Agency to spot abnormal data patterns.

We will also apply more intensive assurance and a high degree of visiting to any new providers on the register. So we are doing a lot. We sum it up as the system is about deterring, preventing, detecting, investigating and enforcing.

Q70 **Caroline Flint:** And what about whistleblowing by people who are on apprenticeships or, for that matter, those working in the area who feel concerned?

Peter Lauener: Whistleblowing is also important. We always pay the greatest respect to and value whistleblowers that we get on other business in the Skills Funding Agency and the Education Funding Agency. I never want just to rely on whistleblowers. Every part of the commercial world as well as the public sector world is making sure there are proper procedures for whistleblowers to say, "This ain't working right. I have not got the service as advertised. I don't like what's happening here." We always investigate any whistleblowers that we get.

Q71 **Caroline Flint:** While we are on the individual learning accounts, if you go to page 39 of the report, figure 14, one of the—*[Interruption.]*

Chair: It's the ghost of Gladstone.

Q72 **Caroline Flint:** It sounds like a dolphin. In figure 14 on page 39—I will get back to that—under "Individual Learning Accounts", the table outlines problems arising because, "The pace of implementation meant that no contingency plans were drawn up" and therefore "all risks became classified" as a priority. I understand that one of the aspects of this scheme is that, again, contingency plans have not really been developed at the outset. I think I am right that there is a view—there is a bit of, as and when we will think about developing them. Was that not a helpful learning point from the ILAs that maybe contingency planning is a good thing to do? What do you think about that?

Jonathan Slater: A good challenge from the NAO, back when they completed their fieldwork in March, was that we had not yet got proper contingency plans in place, we had not yet got a critical path in place as thoroughly as we should, and we did not yet have the independencies fully mapped. So they had done very well on risks, but they had not completed the exercise. It was a good challenge from the NAO and the team have been cracking on and putting each of those into place. I have seen some very detailed contingency plans made since then.

Because it is really important to make sure this does work, we have this organisation called Infrastructure and Projects Authority—a sort of independent, arm's length body in the Cabinet Office—that comes back to review progress. They came in July and they are coming at Christmas. Are we doing all the things we said we should do as quickly as possible? I was in the room with the chief executive of the IPA a week ago. The Cabinet Secretary turned to him, "Should they be doing anything more on



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contingency planning than they are already doing?" Somewhat to my surprise, the answer was no. He will come back at Christmas and see if we are still honest and on track, but I think we have done all the things that Amyas asked us to do.

Q73 Caroline Flint: Would you be able to write to us with an update?

Jonathan Slater: Of course.

Q74 Philip Boswell: Mr Slater, in terms of fraud, does the Department intend to make an assessment of the potential incidence of employers hiring apprentices to avoid paying the minimum wage?

Jonathan Slater: Sorry, what was the first half of the question?

Philip Boswell: In terms of fraudulent misuse of the system, does your Department intend to make an assessment of the potential incidence of employers hiring apprentices to avoid paying minimum wage?

Jonathan Slater: I don't know—how do we assess that?

Q75 Philip Boswell: If I can go on, in December 2015 Channel 4 revealed that one high street retailer saved £2.5 million in wages in 2014 by hiring apprentices, while also receiving an additional £1.8 million in public funds to support the apprenticeship programme. The National Audit Office found that one in five apprentices did not receive any formal training at all, either by an external provider or in the workplace, and current job roles for retail apprentices, according to a Government website, include stockroom assistant. The anecdotal reports of employers hiring apprentices to avoid paying the minimum wage is clearly an abuse of the system. How does your Department intend to tackle this issue, specifically the abuse of the system designed to avoid paying minimum wage?

Jonathan Slater: I am with you, thank you. We have got a number of different things we need to do to make sure the system is working properly. We require Ofsted to check that the training providers are doing their job properly, and if not we are going to be taking them off the system. The SFA has responsibility for checking that there is a sufficient number of completions. We have put in place a regime from last July that hopefully will tackle the issue raised earlier about the number of people who don't even know they are apprentices: a specific agreed deal between the apprentice, the employer and the training provider setting out the nature of the apprenticeship, including the training they are actually going to be doing—an actual schedule—that will be built into the funding agreement with the SFA. That has been in place since last July and the SFA will be following up to make sure that it absolutely happens. The NAO has done good analysis of what is wrong with this system. That is the sort of change we are trying to put in place to stop that happening in future.

Peter Lauener: Could I just add that there is a potential risk? It is one of the categories of risk that we would be alive to. Actions we have taken include improving information for employers on their responsibilities, because there is a different minimum wage for 19-year-olds in the first



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year of an apprenticeship and then afterwards, and making sure, as far as we can, through the mechanism of the apprenticeship agreement, that apprentices are clear on their rights. HMRC actually have a non-compliance function in this respect as well.

I do think this is something we need to look at in more detail, to see whether we can mine the data that we have to look at particular sectors where it might be an issue. For example, I would be concerned if there was a high degree of non-completion in a particular sector. It could be that non-compliance with minimum wage legislation was part of that. So there is probably more we can do as well.

Q76 Philip Boswell: On that point, much has been made of the data collection that is ongoing. It's great, but reading performance indicators, indicators in the market—as I said earlier, from May 2010 to April 2015, retail and commercial enterprises registered 482,300 apprenticeship starts, versus the combined total for everyone else of 428,900. That is a very, very high number of retail and commercial enterprise start-ups, and given the very low level of the training, of the qualifications, implemented across this sector, why weren't alarm bells ringing? Why are you only picking up on this now?

Jonathan Slater: The Richard review, which was referred to here, was in 2012. He was asked how we were going to fix the problem in which the incentives are not properly aligned.

Philip Boswell: Sorry, when was that?

Jonathan Slater: In 2012. He was asked to come forward with a set of recommendations that would fix the problem in which the training provider, the trainer, is essentially in the lead rather than the employer, who needs to be offering jobs to people who have secured the right training. He came forward with recommendations in 2013, and we have been busy implementing them ever since. It is precisely those reforms that come in in full—well, not completely in full but largely in full—from April 2017 that change that incentive so that in the future it will be the employer spending their money filling their skills gaps rather than the other way round, which is what leads to the system you describe.

Q77 Philip Boswell: But that doesn't really answer why it was not picked up. These figures have been out since 2010 to 2015.

Jonathan Slater: What I am saying is that it was the recognition of that problem that led to the Richard review being asked to identify the solution, and the changes we have been making to the system since then.

Q78 Philip Boswell: Are you confident that, going forward, these issues will be addressed by the current system or do you see where improvements can be made to capture this type of abuse?

Jonathan Slater: The Member to your right pointed out earlier that NHS trusts are now thinking for the first time, in a way they haven't quite before, "How can we make sure that we use apprenticeships to fill our needs?", because they are paying the levy. So it won't be that all the



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money can go to retail, because it starts with the employer. That is what fixes the problem, but we will see how it works in practice when the system goes live and we are reporting what apprenticeships are happening in practice and what rates of return are achieved. We will see how the sorts of incentives we have put into the system, on the basis of our consultation proposal about 16 to 18-year-olds, people with learning disabilities and STEM, work in practice. We can definitely adjust the system as we go to make sure it really is hitting the mark.

Q79 Chair: Do you have a target for the number of apprentices you want to see under the new system, under the new standards, in some of these roles?

Jonathan Slater: We are not setting specific numerical targets because, as the Member to your left said, it would be absurd to set a specific number of apprenticeships of particular sorts to be achieved, from Whitehall.

Q80 Chair: But if you have an overarching industrial strategy and you know there are gaps, you must have a ballpark figure—some sort of target.

Jonathan Slater: That is exactly the plan. The Government are publishing their new industrial strategy. When that comes and it identifies a particular area they want to focus on, we can use the system, by adjusting our funding rates accordingly, to support that strategy as it develops.

Q81 Chair: How are you going to guard against people doing apprenticeships that then become less useful because the market has moved?

Jonathan Slater: You, Ms Smyth, pointed in one of your first questions to the different wage premia that different sorts of apprenticeships can achieve. Clearly, the more higher ones, the better. Nevertheless, if the minimum wage premium for hairdressing is 8% for going on an apprenticeship, it is not my job to say, "You can't have any." Even the lowest apprenticeship at level 2, according to these figures, is demonstrating a significant benefit to the individual. But over time, one would want to see—

Q82 Chair: Can I give you an example? It is not quite an apprenticeship, but a qualification for pharmacy technicians—people who measure out drugs in pharmacies. They were not pharmacists, but assistants. Suddenly, the rules changed within the pharmacy industry—I don't know all the details—and no longer did you need a pharmacy technician. So these people who had done the qualification thinking it took them one step above being just a shop assistant were no longer necessary. It was absolutely worthless, and it happened very quickly, so there were a load of people out there with the wrong qualification. How will you make sure that doesn't happen with these apprenticeships, in terms of the new standards?

Peter Lauener: I think the answer is that the standards need to be kept up to date and then constantly reviewed by the Institute for



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Apprenticeships. If they see a need for a change in standards, they need to say to employers in that sector—

- Q83 **Chair:** It could be that someone has done that apprenticeship and thinks they are on a path, and then the rules change so they have to go back and do another one.

Jonathan Slater: We totally need to keep up to speed. I have just been looking at the list of frameworks that we are closing down. We will have closed down a quarter of the existing frameworks by this Christmas, precisely on the basis that they are not meeting needs. We have a spa therapy framework and a locksmithing framework that we are closing down because they are not needed. One job of the institute will be to make sure that the set of standards we put in place is kept up to speed.

- Q84 **Chair:** So what if you are doing a locksmithing apprenticeship on the old framework now, and it is not going to be needed? Where does that leave you?

Peter Lauener: Nobody is doing it.

Chair: There must be a few people doing it.

Jonathan Slater: There were, but there are not any more. We need to keep them up to date.

- Q85 **Karin Smyth:** Mr Slater, can I challenge one of those figures? I think you said that it is always worth doing an apprenticeship in terms of wage differential, but that is not true according to figure 6.

Jonathan Slater: Which page are we looking at?

- Q86 **Karin Smyth:** Page 24, if you refer back to my earlier question. This is about the lower-level apprenticeships. Whether you do classroom-based learning or a level 2 apprenticeship on, for example, customer service or secretarial—if you look at secretarial on level 3, you are better off doing the classroom-based learning rather than an apprenticeship. Peter may correct me if I am wrong, but the Report suggests that for some areas—particularly lower-level qualifications—it is in fact not worth people embarking upon these courses. That is the subject of some of our concern on the Committee; you will get the numbers, but you won't get the quality.

Jonathan Slater: The point I was trying to make was that if you look at the apprenticeship wage premium, it is positive. Secretarial is 10% at level 2. I am not suggesting for a moment that the only way someone should train to become a secretary is through an apprenticeship. It depends on the particular job and the particular course.

We are definitely not suggesting that there should not be any classroom-based training any more. I am the permanent secretary at the DFE; I am in favour in classroom-based learning. I am just saying that people who do a secretarial apprenticeship get a 10% wage premium. Over time, one would want the maximum wage premia—absolutely. We will want to



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measure the extent to which that is happening, and we think we are incentivising employers to make it so. I am just pointing out that even the least value-adding one is adding value.

Peter Lauener: May I quickly add a point on that? If you take the business, management and finance figures in that table, the wage premium is 10% for level 2 classroom-based learning and 9% for apprenticeships. It is important to remember that quite a lot of young people and adults learn better in a practical way. Those young people or adults would maybe not do as well in the classroom-based route. It is about what is right for individuals.

Q87 **Karin Smyth:** My assumption is that that's correct. The issue I am concerned with is that you get to 3 million apprenticeships—in other words, your target—but they are not helping those young people. There is a disincentive in the system. That is the issue we want to pick up.

Sir Martin Donnelly: I have a further point that goes back to our productivity discussion earlier. There is a lot of evidence, not least from countries like Germany and the Netherlands, that having achieved an apprenticeship qualification—the tech areas are a classic example—when the area moves on, it is easier to retrain. The German system is better at retraining technicians more rapidly than the UK system, because more of them have done apprenticeships and can move on more easily.

Jonathan Slater: A final point on this is that the great thing about publishing these data—credit to the NAO for recommending that we do so—is that employers and individuals can use them. You can see significantly higher premiums for level 3 than level 2. What has happened between 2010 and 2014-15? Answer: a slight reduction in the number of level 2 apprenticeships and an 18% increase in the number of level 3s. It is the level 3s that are going up, and we have had a tenfold increase in level 4s and level 5s, from a very low base. That is just the beginning, but I think we are all in the same place: we want to see the most value-adding ones growing the fastest.

Chair: We will hold you to that. You will be back again at some point.

Q88 **Philip Boswell:** Two final questions from me, on improving standards and reporting on the skills gap. Both questions are forward-looking and therefore for the Department for Education. Given that the programme is becoming employer-led, does the Department plan to put any mechanisms in place to ensure that the skills being taught to apprentices in future go above and beyond those traditionally taught on work training? How does the Department plan to ensure that employers accurately report skills gaps in regard to receiving funding for apprenticeship programmes, given that I understand skills gaps are self-reported?

Jonathan Slater: That was two questions, and I have already forgotten the first one. Sorry.

Philip Boswell: We will do the first one first, then—on improving

standards.

Jonathan Slater: That is the point of the standards, basically. We are not satisfied by the existing framework, which does not set a high enough standard for apprenticeship training across the country. That is why we are putting new, higher standards in place, and we are backing that with a lot more money. That is why the spend is going up from £1.5 billion plus £300 million from employers—£1.8 billion in total—to £2.5 billion.

That is a really big increase in funding—more than the increase in numbers. There is going to be an increase in standards, because more money is going to go into a higher set of written standards, which will be defined by employers to meet their needs, and which they are going to be spending their money to hit. That is the first one. What was the second one?

Q89 **Philip Boswell:** On that one, how much of that is about an adjustment of the definition—a redefinition—of standards versus an actual improvement in skills? I understand that it is now in the hands of the employer to make sure that they get the skills they need, but, again, we have talked about abuse. How much is this about redefinition of what the standard is, and how much is it about an advancement in skills and increasing the real value of the skills?

Jonathan Slater: It is all about recognising that the level of skills needs to be increased through the apprenticeship programme. The standards definitely have to be right for the particular role, and we want the employers to be making that judgment, backed up by the resources of the levy, but as was said earlier, we need to make sure that that is done right. It is not just a free market. That is the point of the Institute for Apprenticeships: to make sure that process happens properly and people are held account for doing it well.

Chair: I am going to bring in the Comptroller and Auditor General.

Sir Amyas Morse: If there is something that I worry about going forward, it is gaming. This is a lot of money. Some 10% of the wage bill is quite a lot of money. It is worth thinking of the fiddle for that sort of thing, at least on the junior parts of the wage bill—the difference between that and paying a low rate of contribution.

So far, to be honest, the answer to how we are going to prevent gaming sounds like, “Peter’s going to do it.” All I would say is that we will want to see pretty soon some detailed strategies for that. A really simple thing that has occurred to me as I have been sitting here is that it would not be very good if you found that a major employer could simply reduce their apprenticeship costs by doing a lot of subcontracting, or something like that. I hate to refer to previous programmes, but they did suffer from elements of naivety, and in this one, your reputation could be damaged quite quickly if you are not ahead of being gamed.

Jonathan Slater: I would absolutely welcome the NAO’s—if you are saying you want to come and watch what we are doing here, we would



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absolutely welcome you. That is why I was referring to the 11 categories of possible fraud and gaming that Peter's people have identified. It's not Peter, but a seriously resourced team of data analyst specialists armed with an enormous amount of data from the new system, which was never available in the past, who should be able to spot misuse and send in a team to investigate a problem. Anybody who has ideas to chuck into the mix on how to do this well. It's not 10 % of the wage bill, it is only half, but it is still a lot of money.

Peter Lauener: We are not just doing it on our own; we are working with employers and with training providers. We are trying to approach it creatively and to use people's experience. Around now, we are getting the Government's internal audit agency to review all our plans and we would actually be very happy to share with the NAO the quite detailed plans we are developing. You are absolutely right that it would be enormously reputationally damaging if there were abuses.

Chair: I will make sure to alert the—not quite 650; 640 or whatever it is—other Members of the House to this, because it is often picked up locally first. I think the Comptroller and Auditor General makes, as ever, a sensible point. Mr Philip Boswell, then I am going to go to Bridget Phillipson. I should say we are aspiring to finish within the next 15 minutes, if witnesses and Members could bear that in mind.

Q90 **Philip Boswell:** I will reword the question then. Given the system appears to be being abused, accurate reporting of skills gaps is vital. I understand that each sector needs to identify the appropriate skills gaps and report as such, and the system is designed to fill those gaps. What are you doing, or what will you do, to ensure that reported skill gaps are not part of the abuse, and that the apprenticeships being filled will address the shortfalls?

Jonathan Slater: The way the system is going to work is that it will be a matter for employers to decide if they think they have a skills gap and they think an apprenticeship is the best way of filling it, and to act accordingly. They don't have to put a submission to me to prove that they have a skills gap so I can give them some money. That is not the new system. The new system is we put the money—it is their money, to be fair—in their hands, and the system enables them, through the digital levy, to fill their gaps accordingly. They do not have to prove it to me. I am incentivising them to spend money on securing apprenticeships for their benefit. That is the system.

Q91 **Philip Boswell:** Okay. For the first five years the alarm bells were going and it wasn't picked up until the current changes. You are leaving it in the hands of the market again. You are leaving it in the hands of employers to identify. Is it not incumbent on you to ensure the system is not being abused, and therefore what measures would you put in place as a watchdog?

Jonathan Slater: Absolutely—totally. I was trying to say, perhaps not as well as I should have, that this is not a free market. That's the point of the SFA. That's the point of the institute. That's the point of Ofsted. That's the



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point of Ofqual. That is why we're putting in place an end-of-apprenticeship assessment that is being regulated to make sure that these are proper apprenticeships.

If Ofsted identifies a training provider is inadequate, they can't do anymore apprenticeships; they get taken off the register. We are putting the register in place to put that sort of control in place. If, for example, fewer than 65% of apprentices complete their apprenticeships, Peter's team will go in and challenge them on why that is and can intervene accordingly. Sorry, my answer is, typically, a bit too long. It is precisely because of those sorts of risks that we don't just leave this to the market.

Philip Boswell: So if we are watching the watchdog we should be watching Peter's team?

- Q92 **Chair:** Which we do—Mr Lauener has frequent flyer points because of this Committee and I am sure Mr Slater is going to get a few too. Before I pass on to Bridget Phillipson, this follows on neatly from that point: trade unions are organisations that clearly have a strong interest in making sure these are good quality offers. With the new arrangements, because it is not absolutely clear—maybe you could clarify—will they have a role within the work of the new Institute for Apprenticeships? Will they be involved as they were in the previous arrangements?

David Hill: We are recruiting to the board of the institute at present. That is a public appointment process.

- Q93 **Chair:** By individuals?

David Hill: By individuals, but we have actively sought to encourage individuals from a range of backgrounds—business, both large and small, academia and trade unions, to apply. We have had an incredibly strong response to that—over 280 applications.

- Q94 **Chair:** Has that now closed, the application period?

David Hill: That has closed, and we are going through the recruitment process.

- Q95 **Chair:** Will you be looking at the balance of the board?

David Hill: Indeed, and I think Ministers have been pretty clear that they wish the body to be employer-led and to have a range of different expertise on the board.

- Q96 **Chair:** So by chance or design you might appoint a trade unionist, but you won't actually ask trade unions as a body, or the trade union council, to put forward someone?

David Hill: In relation to the board itself, the appointments are made on merit, on the basis of the individual, but we have got a broad range of expertise in the field.

- Q97 **Chair:** Okay; perhaps to put it a different way, would you think it was a bad thing if you didn't get any trade unions coming through that process



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with those 280 people?

David Hill: Ultimately, the final decision on the appointments is for the Secretary of State. My job is to make sure that they have been tested as credible for the job.

Q98 **Chair:** Would you think it would be good to put up to the Secretary of State a wide choice, which would include trade unions?

Jonathan Slater: Finding the right way of making sure that trade unions are able to play a full and supportive role in the programme has to be to all our benefit, doesn't it? I do not know if I am allowed to do this, but I am going to take away the question about how we can make sure that we are doing that appropriately.

Q99 **Bridget Phillipson:** There has been a lot of concern, including in this House, about the impact that changes to the funding level coming from the Skills Funding Agency will have on apprenticeships for young people of 16 to 18. I just wondered if we could get an update on where we are at, and a comment about the likely impact that could have on young people—in deprived communities, in particular.

Peter Lauener: Mr Slater gave a summary of the position earlier, which is that we consulted on the funding system for post-April 2017. It has been a very lively consultation—lots of comments. We are looking hard at the comments that have come back in, and Ministers will be considering the way ahead shortly, and we expect to publish soon.

Jonathan Slater: We put proposals forward to incentivise 16 to 18-year-olds—both extra money for training providers and a financial incentive for employers. In the consultation phase people have come back with lots of thoughts about that. We will have something out in the next couple of weeks.

Q100 **Bridget Phillipson:** It would be better to get this right, though, wouldn't it, rather than rush?

Jonathan Slater: It is absolutely essential. One of the advantages of bringing together a process under one accounting officer is that I am responsible for all the places where 16 to 18-year-olds might get trained. If the consequences of these reforms were that we did not have enough apprenticeships for 16 to 18-year-olds, I have suddenly got an enormous bill on FE; so I am highly incentivised to get the balance of this right, and am looking very carefully at responses to consultation. We will be putting forward something which responds, we think, right, very shortly.

Peter Lauener: One of the positive trends in the last couple of years is that the number of 16 to 18-year-old apprentices has increased, even though the demographics have been going down. I think that is because young people are seeing the advantages of apprenticeship as a career option.

Q101 **Bridget Phillipson:** But even if you were to increase the number of apprenticeships, there is no guarantee, unless this is done properly, that



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you continue to see that increase in 16 to 18-year-olds or that those young people coming on to apprenticeships are from deprived communities. We really do need a particular push for those young people living in deprived communities, where opportunities are often more limited than they should be.

Jonathan Slater: That is absolutely a very strong point that has been made during the consultation phase, and how we get that right is one of the most active debates we have been working through, so it is just the timing of the Committee. You will see our proposals on 16 to 18-year-olds and on disadvantage in a couple of weeks' time.

Q102 **Bridget Phillipson:** And have you carried out an equality impact assessment, and will that be published?

David Hill: It will be published alongside the final package.

Q103 **Chair:** So the new funding package, you are confident, will cover the points that Ms Phillipson made.

Jonathan Slater: We are highly incentivised, as I say, to try and make sure that there is no reduction in the number of 16 to 18-year-olds, because I haven't got anywhere else to put them; so we are doing our best to get that right. We are putting in place a new system. Will it get exactly the right number in April '17? Answer: no. The only thing we can be certain of is that there is not going to be exactly the right number, but we are doing our best to get it as right as we possibly can, recognising that we are putting a new system in place.

Q104 **Bridget Phillipson:** The point I am keen to stress is that you could still increase the number of 16 to 18-year-olds if you were to draw them from less deprived communities or particular sectors, but that might still have the impact of not targeting the right people.

Jonathan Slater: Absolutely, yes. Apologies if I have not been clear about this. We are trying to do both things. We are trying, in the response to the consultation that will come out shortly, to address how we incentivise 16 to 18-year-olds and how we respond in respect of disadvantage.

Q105 **Chair:** I have a few points to rattle through before I bring in Karin Smyth and Caroline Flint. My first question picks up on the point that Ms Phillipson just mentioned, which was the issue of apprenticeship inflation or deflation or whatever you call it, whereby people with A-levels go back and do apprenticeships. The BIS Select Committee has looked at that a bit.

Our colleague, Peter Kyle, the hon. Member for Hove, has asked me to mention the number of people holding equivalent qualifications at level 3 and above who are doing level 2 apprenticeships. A BIS research paper showed that from the sample cohort in 2013-14, 48% of people on level 2 apprenticeships already held qualifications at level 3 or above. Perhaps Sir Martin Donnelly can deal with those figures, as they are from a BIS document.



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When a number of us visit places, we see that people with A-levels want to do junior apprenticeships, and that A-level apprenticeships are done by people with degrees. How do you stop that from happening? Is that on your radar? Everyone is looking at one another, which worries me. Mr Slater?

Jonathan Slater: To be completely honest, in the time I have been looking at the issues, I have not explored that specific question in detail, but I am happy to do so. Thinking aloud is the best I can do for you.

The reality of the current system, in which training providers are incentivised with the money we give them to find people to train, is much more likely to lead to the outcome that you have described than a system in which employers spend their own money to find people to meet their skills gaps. There would be no point for an employer to train somebody at a level below that which they already have. That is a great example of how the new system is better than the old one.

Q106 **Chair:** Well, they could change sectors.

Jonathan Slater: Of course they could change sectors. If they have A-level history and they want to be butcher, they will need a level 2 qualification in butchering. Butchering? That can't be right.

Chair: We will add that to our bingo card.

Peter Lauener: The most common case is people who go from an academic area at level 3—perhaps they have some A-levels—and want to do something vocational or in the level 2 skills area. We have been trying to push many more people towards level 3 when they have those higher level skills, but we do not have rules against that because the system allows sensible reskilling. Jonathan is right that the new system will give a strong incentive to employers to get the best trained young people they can for their employer levy money.

Q107 **Chair:** May I just ask about the UK Commission for Employment and Skills? When that closes, will the data and all the useful information go straight to the Institute for Apprenticeships? I am looking at you, Mr Lauener, because you are setting up the institute. Will there be a gap?

Peter Lauener: We do not think that there will be a gap. The data collections that the UKCES used to run will be managed by the Department for Education. That will be satisfactorily managed to ensure that we do not lose that knowledge and continuing data.

Q108 **Chair:** I want to ask about cases where providers are rated as less than good by Ofsted. In the three years to 2014-15, 127 providers fell within the scope of formal intervention by the Skills Funding Agency, but only four of those providers had their contracts terminated. Talk us through what happens when there is a concern about a provider. What powers do you have and what will the new set-up be to ensure that those providers are no longer licensed to do their work?



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Peter Lauener: There are two categories. A provider might require improvement, in which case there will be an Ofsted inspection 12 or 18 months later to see whether it has improved. More seriously, a provider might have been registered as inadequate. We might also have concerns about success rates, which we talked about earlier. If they are below the minimum threshold for a significant part of the apprenticeship the provider is offering, we have a process of issuing a financial notice to providers in any of these circumstances.

If the provision is inadequate, the normal recourse is to end the contract. There may be exceptional cases when it is right to let the apprentices finish their apprenticeships, but we judge that on the basis of the apprentices concerned. We also intervene when we have financial concerns and sometime they run together.

Q109 **Chair:** Ninety-seven training providers failed to meet your agency's minimum standards for the proportion of student apprenticeships, which was 65%, but only 44 of them fell into scope for formal intervention and only 10 had formal action taken. Why is there a discrepancy in those figures?

Peter Lauener: We do this over the operating year, which runs from August to July. We then review the whole year's data and take action in January. We have found that in the figures you quoted a considerable number of the providers had already taken the necessary action by the time we were taking stock in January. They might have ended subcontracting with underperforming subcontractors and we felt in such cases there was no need to take further action because the action we would have expected them to take by issuing a notice had already been taken.

Q110 **Chair:** I just want to touch on the targets again. You are starting the new standards fully from next year and I think the aim is to get all new apprenticeships on the new standards by 2020. Is that right, and how confident are you, Jonathan, that you will be able to achieve that?

Jonathan Slater: The plans I have seen suggest that is definitely within our grasp.

Q111 **Chair:** Within your grasp. Is that definite or are there risks along the way that you think may prevent you making that target? Are you being prudent?

Jonathan Slater: I think it will be done. If you ask me a question about anything that might happen in five years, other than whether I will be five years older, I will say I think it will be fine, not that it will definitely be fine. I see no reason why we can't achieve the full roll-out of standards before that.

Q112 **Chair:** That is for new starters. What about the current people? How long will it take people on the old frameworks to come through the system? You may not be able to give me a figure, but what is the attrition rate for those on the old framework—the people currently in apprenticeships—by

2020?

Jonathan Slater: It depends on the length of the apprenticeship.

Q113 **Chair:** Do you have an idea of that? It will potentially make a difference to their chance of getting a job with an employer. That is why I ask.

Peter Lauener: The longest frameworks tend to be three or four years for higher degree apprenticeships, but quite a lot of those are on the new standards. We need to look in a bit more detail at whether there are likely to be people still completing their training on the old standards³.

I am as confident as Jonathan that we can achieve all starts on the new standards by 2020. The Institute for Apprenticeships will obviously be key to that. There will be public consultation on the institute's business plan and that will set out very clear and, I hope, rigorous processes for managing that to achieve the objective. They will not just stop.

Q114 **Chair:** If people are on the old framework and want to move to the new standard because they think it will be better for their career prospects, can they shift over part way through, particularly if they are doing a higher level, longer apprenticeship?

Peter Lauener: I am not sure of the answer to that. I think we should look at it.

Jonathan Slater: We will be consulting shortly on the timetable for closing down all the frameworks, which I guess was your question. We will shortly be making our proposition on how many we should get rid of each—

Q115 **Chair:** It would not be very good value for money if people had to restart part way through. They might think, "Hang on. I don't want to do this if it's not going to be recognised in the same way."

Peter Lauener: My colleague behind me has indicated that it is possible to move across.

Q116 **Chair:** There are always people behind who know the answer. There is a lesson there somewhere. They don't have to sit and take questions from Public Accounts Committees.

Ms Smyth touched on the SMEs and the role they play, but they are not paying the levy. I just want to be clear, before we finish, how that will work, because the levy payers—he who pays the piper and all that—will get first bite of the cherry. As for SMEs, like others have said, in my own constituency there are very few large employers. The NHS is the main large employer. Most businesses—over 90%—employ fewer than six people. Will they get a look in on apprenticeships? How will they get their share?

Jonathan Slater: If they employ fewer than 50 people, they will get apprenticeships in the same way as now through direct funding to the

³ Correction from witness: 'old frameworks' instead of 'old standards'

training provider. If they employ more than 50 they need to put in 10% of the cost, and we up the quality through the use of—

Q117 Chair: If it goes well, as you have said, and these sectors decide they are going to get good quality skilled people through apprenticeships, the levy payers will be thinking, "Right, we're gonna grab some of that." As you have indicated, they will have an interest in it. Isn't there a danger, or maybe I'm just misreading it, that the SMEs could get left behind in constituencies like mine? Well, mine is slightly different as it's in London, but in places like Bristol, Doncaster, Sunderland—everyone is nodding round the table.

Jonathan Slater: Straightforwardly, we are designing a system that seeks to maintain an important market for SMEs to ensure that they can address their skills gaps. We are putting in place a completely new funding regime. The variables that we put in place are ones that we think sustain that market and increase the quality through the application of standards. It will be really important as we monitor the implementation of the new regime to make sure that that is happening in practice. If it isn't, we would need to adjust the rates.

Q118 Chair: How quickly do you think you will be able to determine whether it is working from when you go live? Six months would be the minimum length of time for an apprenticeship with three or four years at the top end.

David Hill: A year is the minimum duration of an apprenticeship.

Chair: Sorry; I am remembering a previous hearing when six months was mentioned.

Peter Lauener: I think the critical issue will be how quickly large levy-paying employers who are not involved in apprenticeships at the moment gear up and start being involved in apprenticeships. We have got comparatively little information on that and we will be watching it very closely.

We are having a lot of dialogue with those providers, and about 450 employers will pay half the levy. We will be able to track that almost month by month because they will be making commitments on the digital apprenticeship service, and that will enable us to start to model over time against actual data how much of levy funding might be contributed by levy-paying employers themselves. As Jonathan has said, we will need to feed that into the overall model and say, "Does that add up to an overall system or does it need to be calibrated?"

Jonathan Slater: We will be able to see starts in real time from the levy. We don't need to wait until the apprenticeships have finished. We will be able to see what is happening to the new starts from May 2017.

Sir Martin Donnelly: The other reassuring feature, in one sentence, is of course that the levy is ring-fenced. There is certainty that that funding continues to go to apprenticeships and it can't be used for other purposes.



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Q119 **Chair:** Absolutely. My final point before I ask Caroline Flint and Karin Smyth to come back in: how will you measure the final outcome? People can pass their apprenticeship, but the key outcome is a job at the end of it. This Committee has previously been critical of apprenticeships. I still go to employers in my constituency and talk to the apprentices and they haven't actually got a job at the end of their apprenticeship. In the old style of apprenticeships, you did four years and got a job guaranteed. How will you measure that and what are your success criteria?

Jonathan Slater: This Report focuses on the wage premiums that you get for different apprenticeships at different levels, but we also track destination data for people who get through their apprenticeships, so we can report back on the proportion who get a job in the subject they have been trained for.

Q120 **Chair:** Do you look at the gaps between leaving an apprenticeship and getting a job? As an employer, you can have an apprenticeship that can be seen negatively as cheap labour and then you get a new apprentice a year later, but you never actually create a permanent job in that role. Is that a sharp practice that you are guarding against?

David Hill: We do have some data around that and the figures are reasonably positive. Of those who have completed an apprenticeship in the last 12 to 18 months, around about 92% are in employment: 75% full time and 17% part time. That is exactly the sort of thing we want to develop in future.

Q121 **Chair:** Do you do it geographically?

David Hill: I would have to double-check. We have some geographical breakdown, but I would have to check whether we have got—

Q122 **Chair:** If you do, it would be very helpful for the Committee to have it.

David Hill: Of course.

Chair: Both so that we can look at it for own interest, as constituency MPs, and so that I can disseminate it to colleagues around the House who will have a very strong interest, because it can show gaming and other things. Mr Boswell has one last quick point.

Q123 **Philip Boswell:** Also whether they are employed in the apprenticeship skill they were trained in or they are just keen to work.

David Hill: Yes, sure.

Chair: There will be some transferable skills, clearly, but still.

Q124 **Caroline Flint:** It would be interesting to know, not just by geography but by sector, how many progress from an apprenticeship to a job.

I have found this session really helpful. I think we have all agreed that the whole point of looking again at apprenticeships—it's not like we're starting from ground zero, because it is a continuum—is to look at addressing skill shortages and the productivity gap.



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I hope you will also consider that one of our problems, when it comes to poverty, is the number of working people who are in poverty. That says to me that there is a massive issue around work progression, not only within a sector but with respect to opportunities for people to maybe move across to another sector where the premium on their training is better. Can you reassure us that you will go away and think about this, particularly about the data and how it can be used—not just about starts but the quality of the outcomes for the individuals, as well as the economy?

Jonathan Slater: Absolutely.

Q125 **Karin Smyth:** I know we are short of time, but can I pick up on the question to Mr Lauener about the providers? I don't think we have talked enough about providers and provider stability in this hearing, and I hope we can revisit that, Chair, when we look back at FE and the sustainability of that sector.

The question to you, Mr Lauener, was all about the number of training providers who haven't met the standard and don't have an intervention. I met the Minister on Monday and we agreed that the key difference between his constituency in Harlow and mine in Bristol South was the quality of the training provider delivering in the FE sector. I would like us to perhaps revisit that and the whole question of how we support apprenticeships.

We haven't mentioned the B-word. We haven't talked about Brexit at all. For construction, we are about to build Hinkley in the south-west. We have a big arena in Bristol and a huge housing programme, for which we are desperately short of construction workers. Could you give us a brief sentence about how you are thinking about Brexit in terms of apprenticeships?

Jonathan Slater: On the previous one, by the way, the FE joint area reviews we are doing at the moment are designed to secure a sustainable FE sector for the future. Clearly apprenticeships are a fantastic opportunity for FE colleges to improve their sustainability, and we are building that into the area review process.

Peter Lauener: The area review process is on time—I was asked about that at the last discussion on further education. We expect to complete the area reviews by the end of March 2017. Lots of implementation of recommendations will follow on from that.

Jonathan Slater: On Brexit, I think my previous answer is the best I've got: that I am putting in place an apprenticeship tool through which employers are incentivised to fill their skills gaps in a way they were not before, and that Government can work in partnership with employers to change the funding rates, as per the proposals for the STEM uplift, in whatever ways it wants in support of its industrial strategy and, indeed, its migration strategy. As and when decisions get taken that are relevant for decisions that are made by employers about the skills they fill—



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Q126 Chair: It works both ways, doesn't it? It takes however long it takes to train a construction specialist—it could be some years, for certain skills. Are you pushing within Whitehall to get answers on these things, so you can start gearing up the apprenticeship programme to do exactly what Ms Smyth has highlighted?

Jonathan Slater: I receive a weekly update on how the Department for Exiting the EU is getting on.

Chair: You may know more than us, then!

Jonathan Slater: And the work of the Department is an important contribution to the forthcoming industrial strategy.

Q127 Chair: That's a very good civil service answer. But what are you doing to push? Maybe Mr Lauener will have a go and then we'll come back to Mr Slater.

Peter Lauener: You asked specifically about construction. Two of the existing standards—the new standards—are in construction, but we expect about 20 through by April. There is a lot of work going on with the construction sector to get the right standards in place to train—

Q128 Karin Smyth: I have opened up a whole other area. I think we can't properly cover it here.

Chair: You are off the hook, Mr Slater.

Karin Smyth: I think we should perhaps pick it through as part of our look at the area reviews coming back and the sustainability of the sector, and the interplay with the other organisations that we have a keen interest in—the local enterprise partnerships—and their role in being able to stimulate or manage the market, because you are dependent on the market.

There isn't a join-up between major projects such as Hinkley in the south-west and other building projects, and the throughput of encouraging young people through a simple system into the right place. I think that is the concern of the Committee.

Chair: Thank you very much, Ms Smyth. Mr Boswell was itching to get in there.

Q129 Philip Boswell: I just have a point on the timing. Mr Lauener said in relation to the gaps that you will be ready with some stats and awareness of what needs done in 2017. It takes four years for a joiner or whatever—doctors, nurses, any engineering skills—and Brexit is looming. It is not looking good.

Caroline Flint: We might have to save that for another session.

Chair: Ms Smyth just has one final pertinent question.

Q130 Karin Smyth: My opening question was about how you measure success. As well as the 3 million, which we can count, we were told about quality



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and value for money and also about linked productivity. What measures will you have on those other items, apart from the 3 million, and are they something that we will be able to hold you to or are they aspirational?

Jonathan Slater: One of the things that we are working on at the moment is a formal benefit strategy, both quantitative and qualitative, to be published. No doubt you will invite us back to talk about how we are doing in implementing that. So we will be formalising the words I have been using to describe the benefits of the system in a strategy for publication.

Q131 **Karin Smyth:** So that will include the quality markers that we were talking about earlier. Will we be able to measure quality?

Jonathan Slater: Yes, because what we will be doing is measuring the extent to which the new standards, which are higher quality, are achieved by people in practice. We will be able to measure the extent to which they get a job in that sector and how quickly.

Q132 **Karin Smyth:** What is the date on that, for the record?

Chair: Are you publishing annual returns or monthly returns?

Jonathan Slater: How frequently do we put on data—

Karin Smyth: The point is that we know we have to measure the manifesto commitment of 3 million. Your answer to my first question was on these other measures. What I want to get on to the record is what measures we are going to have on those other indicators, and a date, if possible.

Chair: Mr Slater, it is giving you an easy option, because if you provide good data to us on a regular basis, we might not call you back quite so often.

Jonathan Slater: I hope you will call me back. I don't have a date on which we are going to publish the benefit strategy, but I will come back to you with that date.

Q133 **Chair:** Will you have annual reports on it, once you have got the strategy in place?

Jonathan Slater: The strategy will include the frequency of reporting, but one of the really important benefits of this digital system is that it enables data to be tracked on a more regular basis than in the past. We are as incentivised as anybody else to find out really quickly what is happening so that we can adjust accordingly, so it will be as quickly as we are able to do so.

Q134 **Chair:** Fantastic. Very open. Sir Martin.

Sir Martin Donnelly: Just to add one inevitably longer term point, a lot of outside organisations, such as the OECD, IMF and so on, measure labour productivity. We would expect this programme to feed through into improved UK labour productivity overall. I guess my one plea, having



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worked on this for six years, is that we must maintain the stability of the system if we want it to work. If we change it every two or three years, even for the best reasons, it will not work. We have got to stick now with the system we have got and really get into all the issues you have raised.

Q135 **Karin Smyth:** When would you expect to see that productivity feed through?

Sir Martin Donnelly: When we get to the sort of targets of apprentice numbers we are talking about, they begin to have a significant effect on skills. I think we are talking five to 10 years before this starts to come through, both for new entrants to the labour market and reskilling people already in it.

Chair: Thank you very much for your generously given time. Our transcript will be up on the website in a couple of days and the Report we produce will be published before Christmas—we haven't got a date yet. Thank you.