EXPLANATORY MEMORANDUM TO

THE ADULT SKILLS (SPECIFIED QUALIFICATIONS) REGULATIONS

2009 No. 1602

1. This explanatory memorandum has been prepared by the Department for Business, Innovation and Skills and is laid before Parliament by Command of Her Majesty.

This memorandum contains information for the Joint Committee on Statutory Instruments.

2. Purpose of the instrument

2.1 The primary purpose of the regulations is to make clear which qualifications are relevant for new duties which are placed on the Learning and Skills Council ("LSC") to secure the provision of proper facilities and to ensure free tuition in respect of certain education and training for adult learners. The regulations also make clear that the duties do not apply to those who are undertaking a relevant qualification as part of an apprenticeship programme and cover other miscellaneous matters.

3. Matters of special interest to the Joint Committee on Statutory Instruments.

3.1 None

4. Legislative Context

4.1 These regulations are made as part of the implementation of the Education and Skills Act 2008 ("the 2008 Act"). They are the first to be made under new sections 4A, 4B and 4C of and Schedule 1A ("the Schedule") to the Learning and Skills Act 2000 ("the 2000 Act"). In summary, section 4A places a duty on the LSC to secure the provision of proper facilities to enable adults who lack skills to obtain relevant qualifications. Section 4B places a duty on the LSC to ensure that learners will not be liable to pay fees for courses of study leading to specified qualifications.

4.2 The broad standards of achievement (or "learning aims") which are relevant to these duties are set out in the Schedule. These are level 1 literacy, entry level 3 numeracy, level 2 and level 3. The Secretary of State may make regulations to specify the qualifications, or descriptions of qualifications at these levels. The primary purpose of these regulations is to make clear how qualifications are to be specified and confer functions on the LSC for this purpose. The LSC only has functions in relation to England.

5. Territorial Extent and Application

5.1 This instrument applies to England.

6. European Convention on Human Rights

6.1 As the instrument is subject to negative resolution procedure and does not amend primary legislation, no statement is required.

7. Policy background

- ***What is being done and why***

Policy objectives of the 2008 Act

7.1 In 2004, the government commissioned Lord Leitch to carry out an independent review of the UK's long term skills' needs. The Final Report of the Leitch Review of Skills - "*Prosperity for all in the global economy – world class skills"* – was published on 5 December 2006[1]. In July 2007 the government published its response: *World Class Skills: Implementing the Leitch Review of Skills.* [2] This included a proposal to "introduce legislation to support adults accessing basic literacy and numeracy programmes and training leading to their first full level 2 qualification."

7.2 The new duties in the 2000 Act include giving learners undertaking literacy level 1, numeracy entry level 3, or a first full[3] vocational level 2 qualification, a similar level of priority for funding as that given to learners aged 16 -18, by placing a duty on the LSC to ensure the provision of "proper" rather than "reasonable" facilities for these adult learners. They will also be able to undertake courses for relevant qualifications for free. This gives legal force to what we call our "adult entitlements". By making courses free to learners we aim to encourage greater take up of these courses and improve the skill level in the country. This represents the Government's strong commitment to adults with the fewest skills.

7.3 We have included learners aged 19 up to 25 seeking a first full[4] level 3 qualification in the scope of the duty to pay tuition fees as this is one of the areas where the UK fares least well compared to other countries. Many young adults did not quite reach the level 3 threshold by the end of formal education. This measure is aimed at addressing this gap by helping this group 'catch up' in their late teens and early twenties.

Specified qualifications

7.4 We have chosen to ask the LSC to produce and maintain a list the list of specified qualifications because it has readily available databases of qualifications and the full list runs into thousands and would be too long to include in regulations. In addition, new qualifications are accredited and become available to learners on a reasonably frequent basis. Providing the specified qualifications in this way means that the lists can be kept up-to-date with the latest qualifications without the need for frequent amendment of the regulations.

7.5 The LSC must make a list of specified qualifications available to the public. This will mean that learners will be able to see which courses they can expect to access as part of the entitlement to free tuition. Examples of qualifications that will be specified and included on the list that the LSC will make available are: the Certificate in Adult Literacy at Level 1 and National Vocational Qualification in Social Care at Level 2.

Apprentices

7.6 Regulation 8 excludes from the scope of these provisions anyone over the age of 19 who is undertaking a course for a specified qualification as part of an Apprenticeship, Advanced Apprenticeship or Programme Led Apprenticeship. This exclusion is made primarily in order to preserve current arrangements under which employers are expected to make a contribution to the cost of the apprenticeship training.

7.7 Apprenticeships are an excellent programme for increasing the levels of skill in industry. However, we require employers to make a contribution to the training costs of apprentices aged over 18 because adult apprentices are often more work-ready than young people and are able to make a more immediate contribution towards business outcomes. It is also in recognition of the importance of the shared responsibility to invest in skills, with employers asked to contribute most where they see the greatest private returns.

---

[1] Copies of the report are available at: http://www.hm-treasury.gov.uk/leitch_review_index.htm
[2] Copies of the response are available at: http://www.dius.gov.uk/reports_and_publications/leitch
[3] A "full" level 2 qualification is one that in terms of breadth and depth is demonstrated by 5 GCSEs at grade C or above.
[4] A "full level 3 qualification is one that in terms of breadth and depth is demonstrated by 2 GCE A levels.

Re-training for literacy and numeracy

7.8 The effect of regulation 9 is that a person who had already obtained a level 1 literacy or an entry level 3 numeracy qualification in the past, but whose skills have deteriorated over time, would be able to do a further course to regain those skills. This is because literacy and numeracy skills are key to adults gaining sustainable employment and securing better life chances. Regulation 10 enables education and training providers to assess whether an individual has level 1 literacy and entry level 3 numeracy skills and gives them a discretion to select a suitable test, assessment or tool, for this purpose. This regulation ensures the legislative provisions are in line with what is currently recognised to be good practice**.**

7.9 Regulation 11 makes provision to require the LSC to ensure that relevant level 1 literacy and entry level 3 numeracy learners will not have to pay the cost of preliminary skills assessments or the costs of examinations at those levels.

- ***Consolidation***

7.10 Not applicable to these regulations.

8. Consultation outcome

8.1 *The Skills Challenge: A Public Debate February 2007*[5] was designed to trigger a public debate on skills issues. This fed into the Government's response to the Leitch Review. A wide range of stakeholders took part including employers, education and skills providers, young people and members of the general public. A key theme for discussion was how best to encourage individuals to improve their skills. After further consultation with stakeholders *World Class Skills: Implementing the Leitch Review of Skills* (July 2007) included a proposal to introduce legislation to support adults accessing skills training at level 1 literacy, entry level 3 numeracy and full level 2.

8.2 For *World Class Apprenticeships* (2008)[6] we consulted employers and others on strengthening Apprenticeships and boosting employer supply. The consultation took place between October and December 2007 and received 104 responses. Employers gave a positive response to the proposals for greater flexibility and more responsive provision, and to Apprenticeships in general. There were some concerns about the cost implications of off the job training on smaller employers. More details are included in the *World Class Apprenticeships Impact Assessment* (attached).

8.3 During this process of preparing the 2008 Act and these regulations, the Department has consulted and worked with the LSC, as the body on which responsibilities will be placed.

9. Guidance

9.1 The LSC is issuing new guidance this summer that will support the implementation of the provisions in the 2008 Act and these regulations. The guidance is aimed at further education colleges and providers, and advice and guidance services that have contact with learners. The LSC also issues funding guidance to all learning providers, including those offering courses which comprise part of an Apprenticeship programme.

---

[5] Copies of the report can be found at:
http://www.dcsf.gov.uk/skillsstrategy/uploads/documents/The%20Skills%20Challenge%20-%20A%20Public%20Debate%20Report%20FINAL%2012%2003%2007.pdf

[6] Copies of this document can be found at:
http://www.dius.gov.uk/~/media/22C55A80D0A242B7A108D362479690FB.ashx

9.2 The Apprenticeships website, www.apprenticeships.org.uk and the National Apprenticeship Service promotes Apprenticeships provides information, advice and guidance to employers, potential apprentices, intermediaries and stakeholders on various issues including funding.

10. Impact

10.1 The impact on business, charities or voluntary bodies is:

- for the general adult skills provisions: negligible as business, charities and voluntary bodies will not be asked to contribute to tuition fees for individuals. These costs will be drawn from public funds. There is however, clear evidence in the attached extract from the Impact Assessment for the 2008 Act of the benefits of making this kind of investment in skills on the individual, economy and society; and

- for the Apprenticeships exclusion: negligible. When, as is the case when adults undertake Apprenticeships programmes, employers are expected to contribute to the cost of the programme then this is in line with current practice. No **additional** financial burdens are placed on employers as a result of these regulations.

10.2 The impact on the public sector is:

- for the general adult skills provisions: the impact is set out in the attached extract from the 2008 Act Impact Assessment. We assumed an increase of 5% in learner numbers as a result of the adult skills provision resulting in an average annual cost to Government of £28.5m. This is based on the 3 years between 2008 and 2011.

- for the apprenticeships exclusion: negligible as the Regulations maintain current practice of expecting an employer contribution to the cost of adult Apprenticeships.

10.3 An Impact Assessment is attached to this memorandum. This attachment includes two Impact Assessments as follows: an extract from the Impact Assessment for the 2008 Act and a copy of *World Class Apprenticeships*, the Apprenticeships Impact Assessment.

11. Regulating small business

11.1 The legislation does not apply to small business.

12. Monitoring & review

12.1 In the 2007 Spending Review, the Department for Innovation, Universities and Skills (now Business, Innovation and Skills) signed up to Skills PSA targets to 2011 as follows:

- 597,000 adults to achieve at least Level 1 literacy and 390,000 to achieve a first entry level 3 or above numeracy qualification between 2008 and 2011;
- 79% of working age adults to be qualified to at least Level 2 by 2011 (up from 70.7% in 2007) – with around 1.2 million first full Level 2 achievements between 2008 and 2011;
- 56% of working age adults qualified to at least Level 3 by 2011 (up from 50.5% in 2007) – with around 500,000 first full level 3 achievements between 2008 and 2011;
- 130,000 full framework apprenticeship achievements by 2010/11.

12.2 The department monitors progress against these targets and reports to Ministers regularly. The Department will review the regulations annually.

13. Contact

13.1 Matt Hamnett at the Department for Business, Innovation and Skills, Tel: 0203 300 8251 or email: matt.hamnett@bis.gsi.gov.uk, can answer any queries regarding the instrument.

Summary: Intervention & Options

Department /Agency:	Title:	
DCSF/DIUS	Impact Assessment of Apprenticeships Review Polices, including the creation of the National Apprenticeships Service.	
Stage: **Final**	Version: **6**	Date: **1 July 2008**

Related Publications: **World-class Apprenticeships: Unlocking Talent, Building Skills for All. The Government's strategy for the future of Apprenticeships in England**

Available to view or download at:

http://www.dius.gov.uk/publications.html

Contact for enquiries: **Cath Witherington/Millar** Telephone: **0114 259 3458**

Leitch identified significant skill gaps in the British economy which Apprenticeships can help to address and outlined comprehensive arguments for government intervention to reduce these gaps. A review of the current Apprenticeships arrangements revealed barriers to the take up of apprenticeships which will impact on our ability to reduce skills gaps. Apprenticeshipds are a key part of the 16+ education and training offer. The Government has an objective to give every young person who is suitable and who wants one an entitlement to an apprenticeship by 2013; and to raise the number of apprentice starts in England to 250,000 by 2020 to enable delivery of the 400,000 England share of the Leitch ambition. The Apprenticeship Programme is on track to meet existing (moderate) targets but is not yet generating the supply of opportunities to meet the significant unmet demand - Government intervention is needed to achieve this step change. Young people need to be encouraged to consider apprenticeships as a quality option post-16. Specifically they need to be challenged to go beyond stereo-typical choices if government is make progress on addressing Apprenticeships poor record on gender and ethnic diversity. Awareness of the benefits of employing and training an apprentice needs to be spread particularly to SMEs and to sectors that do not have a tradition of offering Apprenticeships. Further information is given as part of the evidence base under Impact on Business.

In order to drive up delivery and meet our target of 250,000 starts, we will:

- Increase the number of apprenticeship places available in England on an increasing trajectory until 2020;
- Introduce an entitlement for all young people who are suitable and who want an apprenticeship in line with Raising the Participation Age;
- Aim for 1in 5 young people to be undertaking an apprenticeship in the next decade;
- Address the diversity problems within apprenticeships and influence the wider inequalities in training and work; and
- Assure the quality of apprenticeships.

Intended effects include programme focused leadership and clear accountability through the National Apprenticeship Service (NAS). Better data collection will enable supply and demand mismatches to be addressed and underpin targeted action to increase and widen participation and reduce stereotypical choices.

What policy options have been considered? Please justify any preferred option.

1. No action - Responsibility for apprenticeships to remain fractured. Programme expansion minimal.
2. Clearer division of responsibilities only - Risk of continued confusion. Expansion questionable.
3. Creation of single responsible agency - focused effort to co-ordinate and oversee apprenticeships in all sectors.
4. Apprenticeships legislation - Draft Bill in July, with full legislation next session, to:
    - create entitlement for young people
    - establish Apprenticeship Blueprint setting quality standards
    - establish Apprenticeship Agreement defining apprenticeship contract and responsibilities
    - create the NAS

A single responsible agency was the recommendation of the House of Lords report into apprenticeships, and of a number of stakeholders, including employers. It gives the Programme status and focused co-ordination. Legislation will provided a statutory basis for Apprenticeships and will provide the opportunity for Ministers to set regulations to safeguard and assure quality without adding additional burdens on employers.

The NAS, which will be in place in England in April 2009, will be responsible for continuous monitoring of apprenticeships policy and success. DIUS, in partnership with DCSF, will review these policies at key decision points and specifically at 2013 when the entitlement comes into effect.

David Lammy Minister for Skills

July 2008

Summary: Analysis & Evidence

Policy Option: All options, inc. NAS	Description:

COSTS

ANNUAL COSTS	Description and scale of **key monetised costs** by 'main affected groups'
One-off (Transition) **Yrs**	One-off and annual cost is to Government.
£ 20m	The total cost comprises £ 207m fixed costs associated with the new policy (including £20m one off costs) and £307m programme costs associated with additional apprenticeships created by the policy.
Average Annual Cost (excluding one-off)	
£ 171m	**Total Cost** (over three years) **£ 515m**

Other **key non-monetised costs** by 'main affected groups'

BENEFITS

ANNUAL BENEFITS	Description and scale of **key monetised benefits** by 'main affected groups' Benefits are the estimated value of productivity improvements deriving from the increased numbers of qualified apprentices. Existing published analysis (McIntosh (2007)) provides a social NPV per apprentice of £73,000 and advanced Apprentices of £105,000. These are inclusive of resource costs, including programme costs to government, training and supervisory costs to employers (which vary widely by sector), and also include the productive value of apprentices whilst in training. These unit net benefits are then scaled up according to the estimated increase in apprentices that result from the new policies and their associated costs. (see note below para 28 for further details). The private returns to employers are discussed in para 32.
One-off **Yrs**	
£ Nil	
Average Annual Benefit (excluding one-off)	
£ 696m	**Total Benefit** (over three years) £2.1bn

Other **key non-monetised benefits** by 'main affected groups'

Employer and provider saving in recruitment via matching service;

Benefits to business of reaching wider pool of talent via diversity measures.

The estimate is pessimistic in only counting benefits for first full qualifications at level 2 and level 3. Further cautious assumptions about the McIntosh estimates and a 50% policy assumption are applied to yield the lower estimate, whereas the upper estimate records benefits for all new qualifications at level 2 and 3.

Price Base Year	Time Period Years	**Net Benefit Range** (NPV) **£ 600m - £4.6bn**	**NET BENEFIT** (NPV Best estimate) **£ 1.9bn**

	England
	Sept 2008
	N/A
What is the total annual cost of enforcement for these	£ negligible
	N/A
	N/A
What is the value of the proposed offsetting measure per year?	£ N/A
What is the value of changes in greenhouse gas emissions?	£ negligible
	negligible

Annual cost (£-£) per organisation (excluding one-off)	Micro	Small	Medium	Large
	No	No		

Impact on Admin Burdens Baseline (2005) (Increase - Decrease)

Increase of	£ 0	Decrease of	£ see below	**Net Impact**	**£** Not known. LSC will be tasked to estimate

Key: **Annual costs and benefits: Constant Prices** **(Net) Present Value**

Evidence Base (for summary sheets)

Strategic Overview

1. This Impact Assessment accompanies **World-class Apprenticeships: Unlocking Talent, Building Skills for All.** The Government's strategy for the future of Apprenticeships in England, published on the 28th January 2008. The review took place from August – December 2007, and was shared between the Department for Innovation, Universities and Skills, the Department for Children, Schools and Families and the Cabinet Office's Strategy Unit, and supported by the Learning and Skills Council. The Review was given the objective of assessing the Apprenticeships Programme and determining whether it was fit for purpose to meet the twin objectives of: i) raising the numbers of apprentices to meet the aspiration set out in the Leitch Report; and ii) ensuring availability of enough places to make Apprenticeships a full part of the offer to 16-18 year olds when the participation age is raised.

2. A number of issues with the programme were identified. The most significant barrier to the programme's objectives was insufficient employer places to meet young people's demand. Other barriers to the expansion of the programme included:

- Information, Advice and Guidance to young people that did not have up to date information on apprenticeships, or promoted apprenticeships as an option for those of least ability;
- a complicated delivery system with unclear responsibilities between partners;
- serious Equality and Diversity issues, including Apprenticeships frameworks that were more gender and ethnically biased than the corresponding sector workforces; and
- a marked variability of quality in training provision and framework content.

3. The Queen's speech committed the Government to bring forward draft legislation to reform apprenticeships in the current session. In January, following the Apprenticeships Review, DCSF and DIUS jointly published for consultation **World Class Apprenticeships: Unlocking Talent**. An initial analysis of the consultation responses, the results of which will be put to Ministers when the detailed analysis is complete by mid July, indicated support for the legislative proposals in support of the Apprenticeship Reforms.

4. WCA stated that we would publish Legislation that:

- Creates a National Apprenticeship Service to provide new, focused leadership for the Apprenticeships programme, bringing together a wide range of services and operations currently dispersed among a range of agencies;
- Establishes an explicit statutory basis for the apprenticeships programme for the first time, clarifying the legal status of apprentices and ensuring apprenticeships agreements are in place between employers and learners;
- Provides for a statutory entitlement to an apprenticeships place for all suitably qualified young people who want one;
- Ensures that careers teachers and advisors provide comprehensive information about apprenticeships.

5. The detailed Proposals and Legal Effects are:

- Apprenticeship **Blueprint, Frameworks and Certificates:** The Legislation will give Ministers powers to approve the "Blueprint", which sets out the core elements which apply to every Apprenticeship regardless of career or level. Approval of Frameworks against the Blueprint will be a statutory function of the National Apprenticeship Service. Sector Skills Councils, and others including employers, will then be able to submit Frameworks to the NAS for approval if they comply with the Blueprint. Apprentices who completed a Framework will be entitled to a certificate from the NAS.

- **Apprenticeship Agreements:** The NAS will be able to prescribe model agreements to be entered into between employers and Apprentices. These agreements will be part of a contract of service between employer and Apprentice, and not contracts of apprenticeship as recognised in common law, removing any doubt about the apprentice's status.

- **National Apprenticeships Service**: The functions and duties of the NAS will be laid out in law.

- **Apprenticeships Entitlement:** There will be a statutory entitlement to an Apprenticeship place for all suitably qualified young people. The NAS will be required to exercise its functions so as to ensure that there are enough apprenticeships available to fulfil this entitlement.

Additional Requirements on Employers

6. There will be no additional regulations or burdens on employers other than the requirement to enter into an apprenticeship agreement.

The Case for Intervention

7. The UK faces a challenge to increase skills to help increase productivity and maintain or improve international competitiveness in the long-term. For the future there will be:

- a further shift towards employment in the service sector and away from manufacturing;
- more people in higher level occupations/skills; and
- more demand for generic or transferable skills in addition to technical skills.

8. At the **sectoral level**: All sectors will increase recruitment over the next decade, even those for which employment is projected to decline overall. Skills gaps and skills shortages are at a low level nationally, though this may in part be due to employers' lack of demand for skills. The skills gaps and shortages vary:

- Regionally: the South East and Yorkshire and the Humber suffer disproportionately high skills gaps;
- Sectorally, the gaps are worst felt in the service-related sectors; and
- Occupationally, there are specific problems within certain sectors including:
    - Personal services occupations in the Health and Care sectors;
    - Sales and general service occupations across several sectors; and
    - Plant and machine operatives across manufacturing and engineering sectors.

9. **Employers and individuals** under-invest in training due to a number of market failures:

- Employers: fear of poaching and information failures regarding recruitment;
- Individuals: information failure on the benefits of training and inability to borrow to finance training;
- Both: uncertainty about who will reap the benefits (wages or profits).

Apprenticeships are well placed to address these market failures.

10. **For individuals**: Wage benefits from apprenticeship are strong:
    - 18% at level 3 (compared to those who have achieved a level 2 qualification); and
    - 16% at level 2 (compared to those who have either got below a level 2 or achieved level 2 qualifications).

11. Wage benefits have increased and women now have strong wage benefits at level 3.

For those who are already qualified to level 2 or level 1, Apprenticeships provide strong wage benefits compared to other Vocational Qualifications (VQs):

- Around double that of other VQs (excluding NVQs) at level 3;
- NVQ 3 returns are only significant for males;
- No positive NVQ2 returns.

12. Wage benefits for:
    - NVQs are positive for those without other qualifications, and are especially strong for those of lower ability or working in low skill occupations; and
    - At level 2 most sectors show small or no gains. Similarly, for those who are already qualified to level 2/1 substantial returns to NVQs are seen mainly in the production-based sectors and at level 3.

13. **For employers:** In engineering and construction, high relative training costs to employers are only partially offset by funding support and the productive contribution of the apprentice. The employer must retain the apprentice beyond qualification to fully recoup their investment whereas in retail and business admin, costs are roughly offset by the benefits.

14. **For the economy:** Evidence that takes all costs and benefits into account suggests:
    - significant benefits of apprenticeship to the economy at level 2 and level 3;
    - more than double the benefits that NVQs and VRQs provide for those already qualified to level 2/1; and
    - the benefit is stronger at level 3 than level 2.

Departmental Strategic Objectives (DSOs)

15. The relevant DSOs are:

- Close the gap in educational achievement for children from disadvantaged backgrounds (DCSF
- Ensure young people are participating and achieving their full potential to 18 and beyond (which contains indicators on participation at 17, as well as on attainment to Level 2 and Level 3 at 19). . (DCSF)

- Keep children and young people on the path to success (which contains the indicator on reducing NEET). (DCSF)
- Achieve world class standards in education. (DCSF)
- Improve the skills of the population throughout their working lives to create a workforce capable of sustaining economic competitiveness, and enable individuals to thrive in the global economy. (DIUS)
- Build social and community cohesion through improved social justice, civic participation and economic opportunity by raising aspirations and broadening participation, progression and achievement in learning and skills. (DIUS)
- Strengthen the capacity, quality and reputation of the Further and Higher Education systems and institutions to support national economic and social needs. (DIUS)
- Pursue global excellence in research and knowledge, promote the benefits of science and society, and deliver science, technology, engineering and mathematics skills in line with employer demand. (DIUS)

Public Sector Agreements (PSAs)

16. The relevant PSAs are:

1. Raise the productivity of the UK economy
2. Improve the skills of the population, on the way to ensuring a world class skills base by 2020.
6. Deliver the conditions of business success in the UK
8. Maximise employment opportunity for all
10. Raise the educational achievement of all children and young people
11. Narrow the gap in educational achievement
14. Increase the number of children and young people on the path to success
15. Address the disadvantage that individuals experience because of their gender, race, disability, age, sexual orientation or religious belief.
17. Tackle poverty and promote greater independence and wellbeing in later life
21. Build more cohesive, empowered and active communities

Policy Objectives

Increasing the numbers of Apprenticeships in England:

17. Apprenticeships are an excellent programme for: increasing the levels of skill in industry; helping young people to move from education into work and also raising their wages; and 'upskilling' existing adult learners to make them more productive and more employable. Apprenticeships have also been shown to have a much higher Net Present Value than other vocational qualifications (although this might be augmented by the high demand for them, and therefore their high quality entrants). They are therefore a key route to skills, which will help us to meet the Government's skills targets as outlined in *World Class Skills*, and to become a more competitively skilled nation. Beside this, they will also form a key part, alongside A-Levels and Diplomas, of the 'offer' to young people that is part of raising the educational participation age to 18. By 2013, every young person who wants an apprenticeship and is considered capable of completing one will be entitled to an apprenticeship place.

18. Widespread anecdotal evidence indicates a large surplus of learners wanting apprenticeships over and above employers who are offering places. For instance, the LSC's marketing campaign in 2005, which was directed at employers, generated 202, 519 expressions of interest from potential apprentices. The number of additional employer places generated was around 29, 000. To make the Apprenticeships programme achieve its necessary potential,

therefore, many more employers must be persuaded to take on apprentices. This involves opening up new industries, creating new frameworks, and maintaining a quality of programme and reputation that confirms the apprenticeship as a high quality qualification across of British Industry.

Maintaining the quality of Apprenticeships

19. The first driver for this is to ensure that it is valued, and therefore taken up by, employers who need the framework to be up to date, flexible and relevant. The other is to ensure that young people and adults who take the work-based route are not therefore missing out on the highest quality of training and transferable skills, and to preserve the high rates of return of an apprenticeship.

Improving the diversity of Apprenticeships

20. Industry in Britain has a number of diversity issues – most prominently the gender pay gap, but also including the under-representation of disabled people and ethnic minorities in certain industries. Apprenticeships can be shown to be more segregated as regards gender and ethnic background than the workforce as a whole. As a flagship educational programme, intended to help train the next generation of the country's workforce, this presents a significant challenge. Ideally, the programme, as a flagship government-funded initiative, should be a driver for equality in the workforce. The review measures are therefore also intended to promote diversity and equality within apprenticeships, to aid in closing the gender pay gap, building the aspirations of otherwise disadvantaged people, and in building community cohesion.

Key Policy Options Recommended by the World Class Apprenticeships (WCA) Report

21. The key recommendations of WCA are:

a. **The creation of the National Apprenticeships Service (NAS)**: A joint DIUS-LSC unit will be established to lead the setting up of the NAS, the new director will be appointed by DIUS and the LSC. The creation of a single responsible agency was the recommendation of the House of Lords report into Apprenticeships, and of a number of stakeholders. The NAS will give the programme status and focused co-ordination.

b. **Venture investing 'seed capital' to create Group Training Associations (GTAs) where they are most needed**: This includes Associations in sectors which lack them, and are SME-dominated. This also includes associations in sectors and geographical areas which have an unrepresentative demographic of apprentices. They would have a specific remit to encourage atypical learners to take up apprentices and to help them to work together.

GTAs remove the burden of paperwork from participating businesses. GTAs support SMES who cannot always afford to take on a 'whole' apprentice, by sharing one or more apprentices between a group of businesses. This also allows the apprentice to gain different skills from different businesses. GTAs can be very effective in providing 'critical mass' of atypical young people, so that apprentices from ethnic minorities, or female apprentices in male-dominated sectors can socialise and share in a training environment.

c. **A targeted wage subsidy for employers who face particular problems with recruiting 16-18 year olds**:Targeted expansion of an EMA-equivalent wage subsidy for small employers, who face problems recruiting 16/17 year olds.

d. **Mentor funding for apprentices who are atypical in their workplaces**: Learners, especially young school leavers, can be greatly deterred from entering work environments in which they are unusual. Mentors will gather information on best practice for engaging these young people, and provide pastoral and practical support to them.

e. **Online matching system (already announced**): This vacancy matching service will ease bureaucracy on employers, training providers and young people. Evidence from the pilot activity suggests that it will also make recruitment more direct and equitable.

f. **Marketing campaign, including a London campaign, and a system of awards**: an expanded annual calendar of high-profile events, London-specific campaign, other marketing and sponsorship of AAN will raise the profile of apprenticeships among employers, to alert them to the positive rates of return and the wide selection of frameworks is key to achieving the first objective. A London-specific campaign will address the marked shortage of apprenticeship places in London and also help to make apprenticeships accessible to more learners from ethnic minorities.

22**. Administration Costs:**

- Providers: Benefits: The national matching service will ease the administration burdens of recruitment significantly upon providers. It will provide them a forum on which to advertise their placements nationally, yet which is searchable by postcode by all local potential applicants. Costs: To be effective accurate and timely data is needed. For some providers this may be an additional burden.
- Sector Skills Councils: Benefits: The SSCs will no longer be responsible for the certification of completed frameworks, as this responsibility will pass to the NAS. SSCs will also be able to access more comprehensive and up to date MI on apprenticeships through the NAS, which will significantly help their MI management.
- Large Businesses: Benefits: The large businesses who recruit their own apprentices will also find their burdens eased by the national apprenticeships matching service. In addition they will be able to opt for accreditation of their own Apprenticeship framework thus reducing their need to tailor their training to meet a national framework.
- Small Business: Benefits: The creation of group training associations is specifically intended to ease the administrative burdens on smaller businesses, because the association will take some of the administration responsibilities for employing the apprentice from its member employers, and may design and maintain each apprentice's training programme itself if the employer wishes. Costs: Potential administrative burden for small employers wishing to claim the wage subsidy for apprentices but this will be offset by the use of a brokerage model via the NAS field force.

Impact on Business

23. The impact on business of taking on an apprentice is a positive one. The apprentice's low wages, combined with his/her increasing productivity make for very good rates of return for any employer taking one on.

24. This is what has enabled the programme to grow so far, and what will make the expansion of the apprenticeships programme a positive development for employers. The exception to this rule would be small businesses, who take greater proportional risks by taking on a worker who is untried and may often be young and straight out of full time education. Actions to minimise this risk on small businesses are explained below.

25. All businesses will benefit from the requirement to have a signed Apprenticeship Agreement because it will make explicit the responsibilities of the learner and the training provider.

26. Cost savings from the introduction of the National Matching Service cannot at this point be fully quantified as data will not be available until the test bed areas are underway in September 08. However, early feedback from the three development areas suggests that employers find this type of service valuable because as well as offering cost reduction, it significantly improves their access to a wider pool of talent; and makes a contribution to improving the diversity of their workforce.

27. We expect the NAS to result in improved matches of young people to employers, and for this to result in reduced drop out from the programme and subsequent recruitment costs to fall as a result. A preliminary illustration of potential cost savings to employers from reduced recruitment costs due to better matching is as follows:

Hogarth, T and Hasluck, C (2003) estimate net costs from case studies with 10 engineering employers to be of the order of £16,000 per apprentice. Applying a national non-completion/drop out rate for engineering of 40% and assuming that ¾ of the drop out occurs in the first year of the apprenticeship, and all within 2 years, implies a true cost per apprentice of the order of £20,000 (based on Hogarth and Hasluck's profile of net costs over a typical 3 ½ year engineering apprenticeship). A future reduction in the drop out rate due to better matching of apprentices to jobs would imply savings to employers from a reduced need to recruit to replace failed apprentices. By way of illustration, in this example, a reduction of the drop out rate by 20% (or 8 percentage points), would result in recruitment savings for the employer of around £1000 per successful apprentice.

28. A new net cost study is currently underway and will enable further analysis of the impact of reduced drop out to be carried out. Results are expected by summer 2008.

Note: The basis for the cost benefit calculation is from McIntosh (2007): NPV per level 3 apprenticeship is £105,000 and level 2 is £73,000. For the central estimate, benefits are applied only to those who will achieve a level 3 or 2 qualification as their first at that level. Further we assume that 80% of the anticipated increase in completions is due to the policies costed here. Applying a three year (CSR period) increase in first level 2s of 19,200 and first level 3s of 6,600 to these unit net benefits yields a total of £2.1bn. Subtracting around £200m fixed costs yields £1.9bn. Costs are applied to all achievements and non-achievements, but no benefits are assumed in these cases. This is believed to be a cautious and realistic scenario and is the basis for the "best estimate". Costs to business are shown to vary widely by sector and by level. Hogarth and Hasluck in 2003 estimated costs to employers ranging from £2500 in retail at level 3 to £9700 in engineering at level 3. At level 2 costs varied from £900 in retail to £5700 in business administration. Private net costs to employers need also to take account the productive contribution of the apprentice, and the wage paid to them (see para 32).

29. Further pessimistic assumptions are then applied: using a cautious assumption from McIntosh (2007) that the level 3 unit impact is £66,000, and level 2 is £42,000[7], and an assumption that only 50% of the additional completions result from the policy[8]) to derive the lower bound for the "net benefit range". Grossing up yields a lower bound of £810m. Subtracting £200m fixed costs yields £600m.

30. The upper bound estimates (£4.8bn, or £4.6bn after subtracting fixed costs) assume that the policy impact is 80%, but that all new qualifications count[9], not just those for whom the qualification is their first at that level.

31. These calculations are based on wage return analysis, and as such the extent to which they reflect the total productivity gain to the economy will depend on the extent that the

[7] Assumes wage effects are halved, employment effects remain at 50% and government costs are increased by 50%.
[8] 12,000 first level 2s and 5,000 additional first level 3s over three years.
[9] 44,000 level 2s and 15,000 additional level 3s over 3 years.

productivity benefits of the training are passed on to the apprentices in higher wages. It is reasonable, at least in some sectors that the total benefits will exceed these estimates as employers are able to retain some of the benefits for themselves in the form of higher profits. Two studies (not apprenticeship-related) have suggested that the productivity impacts of training are approximately double the wage benefits[10].

32. The key findings examining the employer benefits from apprenticeship[11] show that, in certain sectors, employers have made a net contribution to the training by the end of the apprenticeship and will need to retain the apprentice beyond the apprenticeship in order to achieve a net benefit. In engineering and construction the gross costs of apprenticeship training are relatively high and only partially offset by Apprenticeship funding. In contrast, in retail and business administration the costs to the employer are roughly offset by the funding by the end of the apprenticeship. A further employer net costs study has recently been commissioned to the Institute for Employment Research by the Apprenticeship Ambassadors Network and will update and improve our evidence in this area by autumnmm 2008.

Impact on Small Business

33. Many of the proposals above are specifically intended to help small business to take on apprentices by removing barriers. Group Training Associations will share the burdens of bureaucracy involved in taking on an apprentice, and the employment risk, by sharing the apprentices between a number of SMEs. Wage subsidies for some small employers will help toward some of the financial burdens of taking on an apprentice. The national matching service will remove the difficulty some small employers find in recruiting from a wide enough pool and finally, the information provided by the National Apprenticeships Service will make it easier for small employers to get the advice and guidance that they need. Most significantly increasing the number of apprentices in small business will raise the skill levels of those businesses and improve their competitiveness.

Impact on Large Business

34. The proposed additional funding for large employers to take on apprentices to seed their sector will have benefits for these large employers, as their supply chain becomes both younger and better skilled, and also more in tune with the business ethic of the company that trained them.

35. Providers may find that they have to become more competitive in gaining employer's apprenticeship contracts when the national matching service makes all such contracts and their relative wages public. NAS will want to monitor this closely and to ensure that there is no negative impact on the choice and availability of apprenticeship opportunities as a result.

36. Sector Skills Councils (SSCs) will find their responsibilities regarding apprenticeships much more clearly defined. The benefits to SSCs in having more accurate and up to date management information will be significant, as it will enable them to judge and correct any problems with their frameworks quickly.

Impact on Public/Third sector

37. The **public sector** is currently underrepresented in terms of providing apprenticeships places. In order to achieve the plans for apprenticeship growth and the levels of unmet demand

[10] (1) Dearden et al (2000) *Who gains when workers train? Training and corporate productivity in a panel of British industries,*, IFS; Dearden et al (2005) *The impact of training on productivity and wages: evidence from British panel data,*

[11] Hogarth, T and Hasluck, C (2003), Net costs of Modern Apprenticeship Training to Employers. DfES RR418

we will require take up in the public sector particularly local government and the NHS which is currently patchy to improve. Funding for apprenticeship programmes is available to public sector organisations on a similar basis as that in the private sector. We have no reason to believe that the costs and benefits of an apprenticeship would be any less advantageous in the public sector than in the private sector. Indeed the benefits of the National Apprenticeships Service and the matching service will apply to public bodies in the same way as for private businesses. Where public bodies are constrained by legislation on the minimum age at which certain occupations can be entered they will be able to take advantage of our proposal to relax funding rules to allow for additional support from the LSC.

38. The Government Skills Strategy for Government Departments and agencies was launched on 1 April. The Strategy includes a proposal to run a pathfinder in **central government**. Government Skills, part of DIUS will be working with departments to deliver an apprenticeship pathfinder for 500 new apprentices starting in September 2008. The pathfinder aims to test new flexibilities in the apprenticeship offer.

39**.. Third sector** organisations are currently able to contract with LSC to deliver apprenticeship training. Although their contribution is not large at the moment we would expect additional providers to enter the market as the provider base expands to meet the needs of a larger programme. We will ensure that third sector providers are represented in any trials of wage subsidies. The national matching service will mean that all providers are able to attract potential candidates on an equal basis and open up the market to smaller and third sector providers.

Interdependencies

40. The Apprenticeships programme is inter-related with a number of other policy areas (both within and outside DIUS). The raising of the participation age means that apprenticeships must now be offered as a coherent part of the post-16 'offer', along with Diplomas and A-Levels. The relationship and nature of these three programmes must be clearly explained to all partners involved – and perhaps most importantly to young people and their parents/carers. Work Related Learning in schools, including Work experience plays a vital part in preparing young people for work-based training and for the type of career they might choose. It also forms an important part of the government's relationship with employers. Other Information, Advice and Guidance received at school or through other advisors is also very important.

41. Level 1 training programmes, like the Entry to Employment Programme are necessary for some young people to take up apprenticeships. From the employer's perspective, apprenticeships form a part of the whole range of government-sponsored work based training available, and brokers like Train to Gain and individual training providers play an important role in making employers aware of all the programmes available to them. After completion, it is important that apprentices should be able to advance into further training and education, perhaps into higher education. UCAS is currently looking into allocating UCAS points to the apprenticeships programme to enable this, and Level 4 'Higher' apprenticeships are being trialled in some sectors. We will be introducing an Apprenticeship 'credit' to be brokered through the Vacancy Matching Service and delivered initially through the trials of Skills Accounts to improve transparency of funding for employers and learners.

Risks

42. The negative effects that this intervention could have would be around confusing learners and employers as to the coherent government offer. To this end, it has been recognised as very important that NAS brokers work with other skills brokers, like Train to Gain and the National Employers Service, to ensure that the government is not seen to be in competition with itself. NAS staff will also seek to work as specialist support to Connexions staff; careers advisers in schools; and staff in Jobcentre Plus. Working in partnership with the NAS, Jobcentre Plus and

the new Adult Advancement and Careers Service will have a key role to play in promoting apprenticeships to adults and supporting them to make the right choices.

43. Our efforts to minimise the potential for deadweight will continue to be reflected in a funding regime which awards the highest level of support to 16-18 learners. For older learners the funding rates payable by the LSC are reduced by up to 50% to reflect the contribution of employers to the costs of their employees' learning programme. We expect that as the programme expands, the new employers who join the programme will not have participated in this form of structured training leading to nationally recognised qualifications before and therefore would not represent a significant risk of deadweight. For learners over 25 we will as now restrict funded opportunities to cases of proven need such as areas of skill shortage.

Distribution

44. Apprenticeships are designed to help industry and employers, and also learners, who are primarily 16-25, but who also include a rapidly increasing number of adult (25+) learners. This intervention is targeted at young people, in order to meet the aim of making Apprenticeships a viable option when the educational participation age is raised to 18. It is also designed, however, to encourage and enable employers to take on and train up older apprentices.

45. This intervention is expressly intended to target underrepresented groups, especially ethnic minority groups and women in those sectors in which they are usually excluded. Please see the Equality Assessment in the appendix.

46. Apprenticeships have been shown to have very good rates of return for employers and for learners. There are no widespread initiatives to promote diversity in apprenticeships at the moment, but the isolated case studies that are available have largely demonstrated very positive results.

47. This intervention may not be able to provide positive results for learners who are geographically disadvantaged. Because an apprenticeship requires a ‘real job’ for the learner, if the local labour market does not support a particular industry, then a learner in that area will not be able to pursue an apprenticeship in that industry. This is an unavoidable result of a training system which responds to the needs of employers and is intended to allow learners to progress to a relevant full-time job upon completion. That said the NAS and SSCs will want to address themselves to minimising the impact of geography and to ensuring that an attractive range of opportunities are available in for example, rural communities.

Specific Impact Tests: Checklist

Use the table below to demonstrate how broadly you have considered the potential impacts of your policy options.

Ensure that the results of any tests that impact on the cost-benefit analysis are contained within the main evidence base; other results may be annexed.

	No	No
	Yes	No
	No	No
	No	No
	No	No
	No	No
	No	No
	Yes	Yes
	Yes	Yes
	Yes	Yes
	No	No
	Yes	No

Annexes

EQUALITY IMPACT ASSESSMENT FOR THE APPRENTICESHIPS REVIEW

Title

The Apprenticeships Review 2007-8, conducted between DCSF, DIUS and Strategy Unit. The Review has drawn up policy recommendations concerning the function, content, delivery, and perceptions of government-sponsored Apprenticeships in order to meet the necessary expansion of the programme.

Description of the policy

An apprenticeship provides an industry-specific training, delivered within a real job, which includes transferable key skills and the theory behind the practice. An apprenticeship is designed to make the learner a more productive, valuable and adaptable employee. This benefits the learner, the employer, and the UK economy as a whole. Currently, there are just under 250, 000 apprentices in England. This number must be greatly expanded, so that apprenticeships can play a key role when the education and training participation age is raised to 17 by 2013 and 18 by 2018, and so that the government target of having 250,000 apprenticeship starts in England by 2020 can be met. To reach both of these goals, it is essential that the quality of the programme is protected or improved where necessary.

A new National Apprenticeships Service will be formed, to sit within the LSC. The Service will have responsibility for channelling funding for Apprenticeships, and also for collecting and disseminating data on the programme to learners, employers, schools, and other parties. Train to Gain brokers will further prioritise promoting apprenticeships to employers, and the programme will benefit from a national marketing campaign. Funding for adult apprenticeships will be further extended. Group Training Associations will be encouraged, to allow employers to 'share' apprentices, and to take on some of the administrative burden. A national matching service is to be implemented in 2008, to link learners and employers in a systematic way, and to enable the collection of more area- and sector- specific data. An apprentice-wage subsidy for smaller employers is also being considered. The framework approval process will be revised, including stipulating that only learners with a good chance of completing should be eligible to take on an apprenticeship. Programme Led Apprenticeships will be restricted to those programmes which involve frequent contact with an involved employer.

The Apprenticeship programme has been growing steadily over the last decade, and has undergone a number of improvements in quality standards. The programme now covers c.180 frameworks, covering over 80 different sectors. It is funded by the Learning and Skills Council (LSC). Framework development is undertaken by Sector Skills Councils (SSCs), and other sector bodies, by the LSC and by the Apprenticeships Approval Group (AAG). Currently, apprenticeships can be brokered in a number of ways, but most commonly through training providers, for small and medium companies, and the LSC's National Employers Service for the largest national employers. There is no uniform way for a young person to enter an apprenticeship. Strong anecdotal evidence indicates that the demand for places significantly outstrips the supply. The future expansion of the programme comes as a result of a number of recommendations that the Apprenticeships programme could and should provide a key route to skills for the nation and industry, from the Cassells and Leitch reports, from the House of Lords, and from the Government.

The evidence base

Young Apprenticeships: Equal Opportunities, B Newton, L Miller, R Page, K Ackroyd, S Tuohy, IES, 2006

Apprenticeships Equality and Diversity Investigation, Research Findings, York Consulting for DfES (unpublished report), 2007

Research into Expanding Apprenticeships, Cambridge Policy Consultants for the LSC (unpublished report), 2007

A Cost-benefit analysis of apprenticeships and other vocational qualifications, Stephen McIntosh, 2007 (RR834). Figures taken from 2005 pay survey, show first positive returns for female apprentices at Level 3.

Free to choose: Tackling gender barriers to better jobs. One year on progress report. EOC, 2006

Building on Young Apprenticeships: Equal Opportunities, B Newton, L Miller, R Page, K Ackroyd, S Tuohy, IES, 2007

Quality Standards for Young People's Information, Advice and Guidance (IAG), DCSF, 2007. Includes Standard 5, a duty to promote equality.

House of Lords Select Committee for Economic Affairs, Fifth Report of Session 2006-2007, Apprenticeships: A key route to skill, Volume 2, Evidence, (HLI38-II), 2007, esp. TUC report, pp. 73 – 76

End of year evaluation to 31/07/06 of Women Build West Yorkshire, Skills Strategy Research, 2006. Emphasises the importance of childcare considerations in enabling women to work in non-traditional sectors. Also, emphasises the willingness of women to work in construction and their interest in it.

The Second Survey of Apprenticeship Pay Report, BMRB Social Research, 2007 (to be published). Similar findings to 2005 report. Apprentices working at less than £80 per week has dropped from 17% to 8%. Otherwise, women continue to work in the least-well paid sectors.

The Distribution and Returns to Qualifications in the Sector Skills Councils, A Dickerson and A Vignoles, 2007 (SfBN RR21)

Building on the Best. Final report and implementation plan of review of 14-19 Work-related Learning. DCSF, 2007

Daring to be Different. The business case for diversity on apprenticeships. AAN and EHRC, 2007

What the evidence shows – key facts

Disability

- 20% of the population as a whole, but 10% of 16-24 year olds, are defined as disabled.

- When the relative percentages of disabled apprentices in a sector and all disabled workers in a sector are compared across some of the larger frameworks, there is no single trend. Some sectors have a much smaller percentage of disabled apprentices than in the sector workforce

as a whole. These include eskills, SEMTA and SummitSkills. LANTRA and People 1st both have a higher percentage of disabled workers who are apprentices than are in the workforce as a whole. Data taken from the 2006 LFS and apprentice numbers 2006.
- There is a lack of good case study examples of good practice in recruiting and keeping disabled learners on apprenticeships.
- Disabled 16-year olds are twice as likely to be out of work, education or training (NEET) as their non-disabled peers (15 per cent compared with seven per cent). (YCS SFR04/2005).

Ethnicity

- In general, the ethnic minority population has a significantly younger age structure than the White British population. This is especially true among mixed heritage young people. Because apprentices are mostly aged between 16-24, then, we would expect to find higher proportions of ethnic minority workers as apprentices than in the sector workforce as a whole.

- When the most recent data on this was compared across ten of the sectors with the largest frameworks, only one, the sporting sector, had a higher percentage of ethnic minority workers doing apprenticeships than elsewhere in its workforce. In most sectors, the balance was skewed dramatically in the other direction.

- In the transport sector, 17% of employees were minority ethnic in 2006, compared to only 5% of apprentices. In the hospitality sector, nearly 16% of all employees were from ethnic minorities, while less than 4% of employees taking apprenticeships were from ethnic minorities. Across the ten sectors compared, an average of 8% of employees were from ethnic minorities, compared to 3.5% of apprentices.

- In fact of all the frameworks for which we had data on a significant number of apprentices[1] in 2006, only four – the two Sporting Excellence frameworks, Community Justice and IT Services and Development had 10% or more apprentices from an ethnic minority.

- Nearly half of the ethnic minority population of England live in London, and apprentices are greatly under-represented in all the London boroughs[2].

Gender

- There have been a number of studies on gender patterns in apprenticeships, and there is a fairly large body of good practice case studies to draw on. Important documents include the 2005 EOC report and the 2006 WWC report.

- Women make up almost half of all apprentices.

- The 2005 apprenticeships pay survey found a 40% average pay differential between male and female apprentices[3]. The Workplace Report of 2006 also found that 70% of L3 apprentices were male, and that they received over just over twice as much training time as females per week[4].

- These differences are between sectors. The sectors which offer the least pay and the fewest opportunities are those which are dominated by women. The largest frameworks which follow this pattern are hairdressing, early years childcare and health and social care.

[1] i.e. more than 20
[2] http://www.statistics.gov.uk/pdfdir/meg1202.pdf (2001/02 data)
[3] www.dfes.gov.uk/research/data/uploadfiles/RR674.pdf
[4] HOL report, pp. 74

- The gender disparity in apprenticeships is primarily in the 'traditional' apprenticeships sectors. The pay survey clearly shows that the large non-traditional frameworks, like hospitality and customer service, do have large numbers of women and also relatively high pay rates. The 2007 survey shows that both the above frameworks pay on average, more than the automotive or construction sectors, and yet have 49% and 67% of apprentices that are female, respectively.

- After the EOC report, many of its recommendations were developed, including the introduction of a minimum wage for apprentices (which led to the £80 per week minimum requirement); having the LSC publish framework data by sector, gender, race and disability; the 2005 and 2007 apprentice pay surveys to inform young people's career choices; ensuring ongoing marketing promoted non-typical examples of apprentices; a commitment to implementing more flexible delivery to encourage take up of non-traditional opportunities/occupations by recruits; and a focus on women learners as part of Apprenticeships for adult entry.

- Cost-benefit analysis of apprenticeships published February 2007 confirmed first observation of significant wage return to women on Apprenticeships at level three (14%)[1]. This data was taken primarily from the 2004-2005 labour force surveys and the 2005 pay survey.

- In the 2007 pay survey, in the largest frameworks that had a more even gender balance – customer service, business administration and hospitality -
  Female apprentices were paid slightly less than male apprentices on average.

Challenges and opportunities

Disability

- addressing low levels of awareness and understanding of disability issues amongst the general public and amongst employers, employees and providers of skills training, and in this connection promoting wider understanding of the distinction between disability and impairment and of the social model of disability
- developing information, advice and guidance (IAG) for disabled people, including those with learning difficulties, so that they are fully aware of opportunities in apprenticeships, and of funding and assistance available to them
- improving the information base, about different types of disabled apprentices, and about which frameworks they are taking and applying for, to identify particular areas of underrepresentation.
- ensuring that capital funding covers reasonable adjustments and specialist support services to enable access to learning for disabled learners

Ethnicity

- enhancing the quality and coverage of statistical information, for example by providing breakdowns not only by ethnicity and framework but also by region and gender.
- promoting community cohesion by eliminating variations in outcomes for different communities; and providing means for apprentices and other workers to interact with people from backgrounds different from their own.

- challenge stereotypes by encouraging a more varied take-up of apprenticeships in a wide range of sectors.

[1] McIntosh cost-benefit analysis, 2007. In 2004, a similar analysis, albeit with less data available, found no returns for women, and only 5-7% for men)

- reducing the disproportionate number of non-completions among ethnic minority apprentices.

Gender

- addressing the under-representation of women in science (including computer science), engineering, construction and technology (SECT), through apprenticeships, thus helping to address the national skills shortages in these subjects.
- contributing in this way and others to narrowing the national gender pay gap
- working with our delivery partners to tackle gender stereotyping and segregation in education and training through information, advice and guidance (IAG) in relation to framework choices, and through ensuring that preparatory work experience and work-related learning give both girls and boys an opportunity to expand their horizons by trying out non-traditional work

Equality impact assessment

Disability
A positive impact is likely. There is insufficient evidence, however, for this assessment to be made with as much confidence as is desirable

Ethnicity and Gender
A positive impact is explicitly intended and very likely

Next steps

- The information base is to be improved. Data is already collected by the three categories, and the apprenticeships pay survey is run every two years. Data should also be collected by region, however, and separately on the numbers of apprentices who apply, who start, and who complete. This might be able to be built in to the online matching service, which is being developed at this time. A single collection and dissemination responsibility must be taken for this data and for information and IAG on good practice, which will be taken by the NAS.

- Application procedures for apprenticeships are to be made more open and transparent. This will also be a function of the online matching service. This will help to reduce the numbers of young people embarking on apprenticeships via a 'friends and family' network of referrals.

- IAG will be made more explicitly available in schools to encourage young people to think about apprenticeship frameworks in a non-stereotypical way. This will be accomplished by retraining sessions for careers advisers and by providing more open access promotional material.

- Consideration should be given to increasing the apprenticeships minimum wage. Low Pay Commission to be asked to look into apprentice pay issues..

- National programme to encourage employers to consider and to market equality and diversity themselves. Aids to be made available, including, but not limited to, excellent IAG on best practice for doing so.

- Short-term targeted engagement plan for non-typical learners and their employers. The plan is to be focussed on the specific regions and sectors which demonstrate the greatest inequality, with the intent of providing 'critical mass' of non-stereotypical apprentices in these areas, to begin a long term 'snowball' effect, and to provide strong case studies and evidence on the number of young people required to produce 'critical mass', and the best strategies for engaging them. This includes a campaign that is London-specific, in co-

operation with the LDA, and a focussed roll-out of Group Training Associations in targeted areas to provide holistic support, including mentoring and pre-apprenticeships.

- Strong E&D input on 14-19 Work Related Learning 'Vision', and upcoming QCA / DCSF guidance on Work Related Learneing, in line with IAG 'standard 5' and schools' equality promotion duties. General E&D team input into schools based IAG, to fulfil standard 5. Long-term information sharing relationship must be established between schools, the NAS and the Employer partnerships which will be enabling WRL and the Diplomas.

- Revising the blueprint to exclude learners who have little potential for completing apprenticeships may exclude some disabled learners unnecessarily. Guidance will have to be issued to guard against this.

For the record

For the record, but not for publication, give:

Your name and today's date: Jennifer Mullis 26 March 2008

Name of SRO and date endorsed by SRO: Millar MacDonald **[28.03.08]**

Summary: Analysis & Evidence

Policy Option: Adult Skills	Description: Duty on the LSC to secure proper facilities for first courses in basic literacy and numeracy to eligible adults, free of charge.

COSTS

ANNUAL COSTS

One-off (Transition) Yrs

£ 0

Average Annual Cost (excluding one-off)

£ 20m

Description and scale of key monetised costs by 'main affected groups' **Average annual cost of £10.5m to central Government for course fees for additional learners. An estimated annual average cost of £9.5m to learners due to loss of earnings and other additional costs associated with learning.**

Total Cost (PV) £ 20m

Other key non-monetised costs by 'main affected groups' **Some administrative costs to the LSC and providers. These courses are already taking place and cost will be around processing additional enrolments and marketing, which will generally come from existing funding.**

BENEFITS

ANNUAL BENEFITS

One-off Yrs

£ 0

Average Annual Benefit (excluding one-off)

£ NA

Description and scale of key monetised benefits by 'main affected groups'

Total Benefit (PV) £

Other key non-monetised benefits by 'main affected groups' **To individuals: increases in employability and earnings; associated benefits to their children, health and family life. To business: increases in productivity. There will also be wider benefits to society as people become less marginalised and are able to participate more.**

Key Assumptions/Sensitivities/Risks **Assumes that 5% of each year's increases in learners and sucessful qualifiers can be attributed to the legislation. The annual costs to Government and learners are averaged over the three years: 2008/09, 2009/10, and 2010/11; and are discounted based on 2007/08 prices.**

Price Base	Time Period	Net Benefit Range (NPV)	NET BENEFIT (NPV Best estimate)
		£ NA	£ Not estimated

What is the geographic coverage of the policy/option?				England only
On what date will the policy be implemented?				2008/09
Which organisation(s) will enforce the policy?				DIUS
What is the total annual cost of enforcement for these organisations?				£ 0
Does enforcement comply with Hampton principles?				Yes
Will implementation go beyond minimum EU requirements?				Yes/No
What is the value of the proposed offsetting measure per year?				£ NA
What is the value of changes in greenhouse gas emissions?				£ NA
Will the proposal have a significant impact on competition?				No
Annual cost (£-£) per organisation (excluding one-off)	Micro	Small	Medium	Large
Are any of these organisations exempt?	No	No	N/A	N/A

Impact on Admin Burdens Baseline (2005 Prices) (Increase - Decrease)

Increase £ NA Decrease £ NA Net Impact £ NA

Key: Annual costs and benefits: Constant Prices (Net) Present Value

Summary: Analysis & Evidence

Policy Option: Adult Skills	Description: Duty on the LSC to secure proper facilities for first level 2 qualifications for eligible adults, free of charge.

COSTS

ANNUAL COSTS	
One-off (Transition)	Yrs
£ 0	
Average Annual Cost (excluding one-off)	
£ 31m	

Description and scale of key monetised costs by 'main affected groups' **Average annual cost of £5m to Government for extra course tuition fees. Average annual cost of £26m to learners due to loss of earnings and other costs associated with learning.**

Total Cost (PV) £ 31m

Other key non-monetised costs by 'main affected groups'

BENEFITS

ANNUAL BENEFITS	
One-off	Yrs
£ 0	
Average Annual Benefit (excluding one-off)	
£ 55m	

Description and scale of key monetised benefits by 'main affected groups' **£55m to learners. This is estimated average lifetime benefit to one year's cohort of additional learners (5%) as a result of gaining their first full level 2 qualifications.**

Total Benefit (PV) £ 55m

Other key non-monetised benefits by 'main affected groups' **To indivduals: improved employability and increased wages, increased likelihood of going on to further learning. To business: increased productivity. Wider social benefits from better health and social engagement.**

Key Assumptions/Sensitivities/Risks **Assumes 5% of each year's increases in learners and sucessful qualifiers can be attributed to the legislation. The annual costs and benefits for Government and learners are averaged over the three years: 2008/09, 2009/10 and 2010/11. They are discounted to 2007/08 prices.**

Price Base	Time Period	Net Benefit Range (NPV)	NET BENEFIT (NPV Best estimate)
		£ 5m - £48M	£ 24m

What is the geographic coverage of the policy/option?				England only
On what date will the policy be implemented?				2008/09
Which organisation(s) will enforce the policy?				DIUS
What is the total annual cost of enforcement for these organisations?				£ 0
Does enforcement comply with Hampton principles?				Yes
Will implementation go beyond minimum EU requirements?				Yes/No
What is the value of the proposed offsetting measure per year?				£ NA
What is the value of changes in greenhouse gas emissions?				£ NA
Will the proposal have a significant impact on competition?				No
Annual cost (£-£) per organisation (excluding one-off)	Micro	Small	Medium	Large
Are any of these organisations exempt?	No	No	N/A	N/A

Impact on Admin Burdens Baseline (2005 Prices) (Increase - Decrease)

Increase £ NA Decrease £ NA Net Impact £ NA

Key: Annual costs and benefits: Constant Prices (Net) Present Value

Summary: Analysis & Evidence

Policy Option: Adult Skills	Description: Duty on the LSC to secure first level 3 courses to 19-25 year olds, free of charge

COSTS

ANNUAL COSTS	
One-off (Transition)	Yrs
£ 0	
Average Annual Cost (excluding one-off)	
£ 19.5m	

Description and scale of key monetised costs **by 'main affected groups'** **Average annual cost of £13m to central Government for tuition fees; and £6.5m to learners due to loss of earnings and other costs associated with learning.**

Total Cost (PV) £ 19.5m

Other key non-monetised costs **by 'main affected groups'** **Some administrative costs to the LSC and providers. These courses are already taking place and cost will be around processing additional enrolments and marketing, which will generally come from existing funding.**

BENEFITS

ANNUAL BENEFITS	
One-off	Yrs
£ 0	
Average Annual Benefit (excluding one-off)	
£ 27.5m	

Description and scale of key monetised benefits **by 'main affected groups'** **£27.5m to learners. This is estimated average lifetime benefit to one year's cohort of additional learners (5%) as a result of gaining their first full level 3 qualifications.**

Total Benefit (PV) £ 27.5m

Other key non-monetised benefits **by 'main affected groups'** **To individuals: health and social benefits. Employers: will benefit from higher productivity and profitability. To society: wider social benefits.**

Key Assumptions/Sensitivities/Risks **Assumes 5% of each year's increases in learners and sucessful qualifiers can be attributed to the legislation. The annual costs and benefits for Government and learners are averaged over the three years: 2008/09, 2009/10 and 2010/11. They are discounted to 2007/08 prices.**

Price Base	Time Period	Net Benefit Range (NPV)	NET BENEFIT (NPV Best estimate)
		£ - £2.5m to +£40m	£ +8m

What is the geographic coverage of the policy/option?				England only
On what date will the policy be implemented?				2008/09
Which organisation(s) will enforce the policy?				LSC
What is the total annual cost of enforcement for these organisations?				£ 0
Does enforcement comply with Hampton principles?				Yes
Will implementation go beyond minimum EU requirements?				Yes/No
What is the value of the proposed offsetting measure per year?				£ NA
What is the value of changes in greenhouse gas emissions?				£ NA
Will the proposal have a significant impact on competition?				No
Annual cost (£-£) per organisation (excluding one-off)	Micro	Small	Medium	Large
Are any of these organisations exempt?	No	No	N/A	N/A

Impact on Admin Burdens Baseline (2005 Prices) (Increase - Decrease)

Increase £ NA **Decrease** £ NA Net Impact £ NA

Key: Annual costs and benefits: Constant Prices (Net) Present Value

8 COST/BENEFIT ANALYSIS: ADULT SKILLS

Costs and benefits – of the duties on the LSC to secure basic literacy and numeracy (Skills for Life), first full Level 2 and Level 3 courses.

8.1 A free entitlement to Skills for Life and to first full Level 2 qualifications has already been introduced across England in an administrative form, resulting in increased participation. The Level 3 19-25 administrative entitlement was introduced for FE learning only in August 2007. To further increase participation and achievement, we want to strengthen the offer by legislation. Currently, we believe that institutions lack the incentive to invest in the delivery of these qualifications, due to the absence of long term, secure Government commitment to these policies. Legislation signals to colleges and other learning providers that the government is serious about raising achievement: encouraging permanent investment in teaching staff, facilities and quality improvement actions which will ensure increasing quality provision - and support our aim to increase success rates.

8.2 The entitlements are part of a long term strategy to focus public funding and encourage greater take up of skills that are most valuable for the future economy of the country. It is therefore very difficult to isolate the effects of the entitlements from other aspects of our skills and adult learning policies.

8.3 In each of the areas of SfL, Level 2 and Level 3, we have projected substantial increases in success rates. Some of these increases would happen without the legislative change, but for the purpose of the impact assessment, we will make the conservative assumption that 5% of each year's increases can be attributed to this legislative intervention.

Costs – associated with the three duties

8.4 The following additional costs will arise as a result of the three new duties:

- Administration costs of introducing the legislation. Although this involves considerable work, it is assumed to be zero, because no additional people will be employed. The direct costs to the providers are assumed to be minimal, as they are only required to state whether the learner has already achieved a qualification at the same level or higher. However, it may be that other important work is displaced as a result, and this could result in additional costs, or place extra burden on staff at the LSC or within institutions. However, this is unfortunately not quantifiable at this stage.

- Course fees for the additional achievers (i.e. 5% of the additional learners) and non-achievers. For non-achievers the course cost is assumed to be half that of achievers (i.e. that they drop out on average midway through the year).

- Loss of income for the extra learners who participate as a result of the legislation. As learner participation is not compulsory, we do not expect many people to give up work to take part in the course. However, some may move from full-time to part-time work, or defer taking up work if unemployed. We will assume that these extra learners will on average forego around £5,000[37] per year as a result of reduced working hours in order to study for Level 2 and Level 3 qualifications. We have assumed half this amount for Skills for Life, as the courses are shorter and usually take place outside working hours.

- Studying costs. The entitlements extend only to free tuition, so there may be some examination registration fees or other accreditation costs for learners. Learners may also incur costs in the form of transport costs, child care costs or for books and

[37] Study of learners in FE survey (2003) page 17, shows average income of FE learners is around £10,000 http://www.dfes.gov.uk/research/data/uploadfiles/RR469.pdf

equipment. We assume that these, together with examination fees, average £1,000[38] per learner in total, for Level 2 and Level 3 and half this amount for Skills for Life.

- Employer costs. Costs to employers in releasing workers to undertake training are assumed to be neutral. Participation is voluntary, so employers will only therefore release workers for training if they see it as beneficial for them to do so. For very small firms (under 50 employees), there is a wage compensation scheme available through Train to Gain, helping to offset any burden incurred due to employee participation in training. However, the low take up so far indicates that employers generally see release for training as bringing an overall benefit, rather than a cost.

Benefits – associated with the three duties

8.5 The following additional benefits will arise as a result of the three new duties:

- Improved employability for learners. Employers reported around 170k hard to fill vacancies in England due to lack of skilled applicants.[39] Longitudinal research shows that those who improve their literacy and numeracy skills between the ages of 21 and 34 were less likely to be on benefits and more likely to be in employment.[40] The probability of being employed is estimated to increase by 10% points for men and 13% points for women with GCSEs/O levels. For level 2 NVQs, the probability of being employed increases by 10% points for women, and around 3% points for men. Those who have left school with no qualifications benefit even more from gaining vocational level 2 qualifications.[41]

- Wage benefits to learners. There are significant wage benefits to learners as a result of gaining skills qualifications. These are considered further below.

- Improved progression and social mobility. Gaining additional qualifications is a platform for progression to higher qualifications. For example, adults without a level 2 qualification are less likely to receive training from their employer and to be able to finance their own learning.

- Productivity gains to employers and the economy. A better trained and educated workforce is likely to be more productive and more able to adapt to changes in technology. A 5% point increase in the proportion of workers trained in an industry is associated with a 4% increase in value added per worker and 1.6% increase in wages.[42]

- Wider benefits to families and society. There are significant benefits to the long term prospects of children in families where parents improve their skills. In addition, research shows that addressing literacy and numeracy skills can have significant benefits for health family life and civic participation. There is also some evidence that a polarised workforce with large inequalities in educational attainment and skill levels is less conducive to economic growth and less socially inclusive than where attainment is more equal[43]. Therefore, we anticipate that, as well as wider benefits to society, there will be savings to the DWP, DCLG, DH and the Home Office and others by addressing basic skills. Given the number of variable factors such savings are very difficult to quantify.

---

[38] Study of learners in FE survey (2003) page 38 show other learning costs are around £1000 per year http://www.dfes.gov.uk/research/data/uploadfiles/RR469.pdf

[39] Leitch Review: Prosperity for all in global economy – World Class Skills (2006)

[40] Bynner (2006) 'New Light on Literacy and Numeracy'

[41] McIntosh CEP (2005)

[42] Dearden, Reed & Van Reenen (2002) 'Who Gains when Workers Train?'

[43] Feinstein WBL Research Report 5 (2002) 'Quantitative Estimates of the Social Benefits of Learning'

Costs and benefits - of the duty to secure Skills for Life courses

8.6 Table 1 shows the projected participation and achievements changes for Skills for Life policies over the next 4 years, both overall and assuming that 5% of each year's increases can be attributed to this legislative intervention.

Table 3 - Projected participation and achievement changes for Skills for Life

	2007/8	2008/09	2009/10	2010/11
Total Skills for Life learners	1,161,674	1,227,000	1,227,000	1,227,000
Increase in learners from 2007/8 levels		65,326	65,326	65,326
Number of extra achievements		52,689	61,230	65,683
Increase in learners as a result of the duty		3,266	3,266	3,266
Increase in achievements as a result of the duty		2,634	3,061	3,284

Costs of duty for Skills for Life

8.7 The expected discounted costs for Skills for Life are summarised in the table below, in 2007/08 prices, assuming that 5% of each year's increases can be attributed to the legislative intervention.

Table 4: Additional costs of the duty to provide Skills for Life courses in 2007/08 prices

	2008/09	2009/10	2010/11	Total
Total costs for DIUS	£9,880,298	£10,560,490	£10,675,370	£31,116,158
Loss of earnings	£6,413,018	£7,452,481	£7,784,403	£21,649,902
Cost of learning	£1,282,604	£1,490,496	£1,556,881	£4,329,981
Cost of learning for non-achievers	£641,302	£745,248	£778,440	£2,164,990
Total costs	£18,217,221	£20,248,714	£20,795,093	£59,261,028

8.8 As stated previously, we assume that Skills for Life participants forego £2500 in earnings and incur course costs of £250 whilst studying.

Benefits to Individuals, Employers and Society from Skills for Life

8.9 Due to the absence of suitable data, we are unable to estimate the potential benefit arising from the impact of the duty on Skills for Life. However, the evidence available shows that basic skills in general deliver substantial benefits.

8.10 Recent research[44] shows that individual wage returns are high: 12% for numeracy courses (for both men and women) and 15% for men and 13% for women, for literacy courses. There is a significant relationship between literacy skills and employment for women and

[44] de Coulon et al (2007) The Value of Basic Skills in the British Labour Market

between numeracy skills and employment for men. In view of the high benefits that literacy and numeracy courses bring, the potentially large benefit that the duty can help deliver fully justifies central government investment.

Costs and benefits - of duty on the LSC to secure Level 2 skills courses.

8.11 Tables 5 and 6 show the projected participation and achievements in full level 2 qualifications over the next 4 years.

Table 5: Level 2 (L2) Participation and achievements in FE 2007/8 to 2010/11

Further Education – Level 2	**2007/08**	**2008/09**	**2009/10**	**2010/11**
Total full L2 participants	250,995	264,783	280,744	315,032
Of which total first full L2 participants	112,948	132,758	153,999	190,189
Increase in first full L2 participants since 2007/8		19,810	41,051	77,241
Increase in first full L2 participants since 2007/8 as a result of the duty		990	2,053	3,862
Total first full L2 achievements	66,871	80,610	96,258	122,275
Increase in first full L2 achievements since 2007/8		13,739	29,387	55,404
Increase in first full L2 achievements since 2007/8 as a result of the duty		687	1,469	2,770

Table 6: L2 Participation and achievements in TTG 2007/8 to 2010/11

Train To Gain – Level 2	**2007/8**	**2008/09**	**2009/10**	**2010/11**
Total full L2 participants	344893	411,537	422,738	408,021
Of which total first full L2 participants	275,914	329,229	338,190	326,416
Increase in first full L2 participants since 2007/8		53,315	62,276	50,502
Increase in first full L2 participants since 2007/8 as a result of the duty		2,666	3,114	2,525
Total first full L2 achievements	145778	173,947	178,682	172,461
Increase in first full L2 achievements since 2007/08		28,169	32,904	26,683
Increase in first full L2 achievements since 2007/8 as a result of the duty		1,408	1,645	1,334

Costs of duty for Level 2

8.12 All of the costs mentioned above are applicable to the level 2 duty. Assuming that 5% of each year's increases can be attributed to this legislative intervention, the expected discounted costs are summarised in table 7, in 2007/08 prices.

Table 7a: Costs of the duty for Level 2 – Further Education

	2008/09	2009/10	2010/11	Total
Total costs for DIUS	£1,188,157	£2,492,503	£4,530,700	£8,211,360
Earnings loss to learners	£4,426,213	£9,299,081	£16,779,244	£30,504,539
Cost of learning to learners	£1,101,599	£2,288,928	£4,085,242	£7,475,770
Total costs	£6,715,970	£14,080,513	£25,395,186	£46,191,669

Table 7b: Costs of the duty for Level 2 – Train to Gain

	2008/09	2009/10	2010/11	Total
Total costs for DIUS	£2,507,244	£2,990,623	£2,454,677	£7,952,544
Earnings loss to learners (@£5000)	£9,917,746	£11,584,679	£9,147,551	£30,649,976
Cost of learning to learners (@£1000)	£2,595,681	£3,031,952	£2,394,105	£8,021,738
Total costs	£15,020,671	£17,607,254	£13,996,333	£46,624,258

Benefits of the duty to secure Level 2

8.13 We estimate the average lifetime productivity benefit for learners of this age group taking their first full L2 course to be around £18,000[45], in 2007/08 prices. This assumes the mixture of full L2 courses currently taken by learners remains similar in future. It is assumed that those qualifying with a vocational level 2 qualification previously held a Level 1 or Level 2 qualification, meaning that we could be potentially underestimating the benefits for first time qualifiers.

Net impact of the duty to secure Level 2.

8.14 Assuming that the intervention will be responsible for 5% of the total number of successful qualifiers expected up to 2010/11, the duty to secure L2 courses will generate an estimated total benefit of approximately **£88m** for FE learning and **£78m** for Train to Gain learning. Setting this off against the costs outlined above reveals an estimated overall net benefit of approximately **£42m** for FE learning and **£32m** for Train to Gain learning; and an overall Net Present Value (NPV) of approximately **£74m.**

Sensitivity Analysis

8.15 The NPV calculations assume that the intervention will be responsible for 5% of the total benefit from meeting the success rate targets. However, this may not be the case. Sensitivity analysis has been performed, showing the potential NPVs of the intervention under a range of scenarios. This is shown in tables 8 and 9 below.

[45] From DIUS internal analysis, using evidence from McIntosh (2007): A Cost Benefit Analysis of Apprenticeships and Other Vocational Qualifications, DfES RR 834.

Table 8: Range of NPVs for FE

Contribution to overall benefits	Benefits to FE	Costs to FE	NPV
1%	£17,550,291	£9,238,334	£8,311,957
5%	£87,751,454	£46,191,669	£41,559,785
7.5%	£131,627,181	£69,287,504	£62,339,678
10%	£175,502,908	£92,383,338	£83,119,570

Table 9: Range of NPVs for Train to Gain

Contribution to overall benefits	Benefits to TTG	Costs of TTG	NPV
1%	£15,738,855	£9,324,852	£6,414,003
5%	£78,694,274	£46,624,258	£32,070,016
7.5%	£118,041,411	£69,936,387	£48,105,024
10%	£157,388,548	£93,248,516	£64,140,032

8.16 The tables show that even if the duty contributes 1% towards the overall benefits of meeting our success rate targets – a very small amount – the intervention still results in a positive NPV for Train to Gain and FE learning.

Costs and benefits - of the duty to secure Level 3 Courses

8.17 Tables 10 and 11 show the projected participation and achievements in full level 3 qualifications over the next 4 years.

Table 10: L3 Participation and achievements in FE 2007/8 to 2010/11

FE – Level 3 ages 19-24	2007/8	2008/09	2009/10	2010/11
Total full L3 participants	81,578	98,749	120,020	125,541
Of which total first full L3 participants	44,868	54,312	66,011	69,048
Increase in first full L3 participants since 2007/8		9,444	21,143	24,180
Increase in first full L3 participants since 2007/8 as a result of the duty		472	1,057	1,209
Total first full L3 achievements	22,026	26,662	32,406	33,896
Increase in first full L3 achievements since 2007/8		4,636	10,379	11,870
Increase in first full L3 achievements since 2007/8 as a result of the duty		232	519	594

Table 11: L3 Participation and achievements in Train to Gain 2007/8 to 2010/11

Train to Gain – Level 3 ages 19-24	2007/8	2008/09	2009/10	2010/11
Total full L3 participants	3,783	8,344	8,792	32,762
Of which total first full L3 participants	3,026	6,675	7,034	26,210
Increase in first full L3 participants since 2007/8		3,649	4,008	23,184
Increase in first full L3 participants since 2007/8 as a result of the duty		182	200	1,159
Total first full L3 achievements	1,271	2,804	2,954	11,008
Increase in first full L3 achievements since 2007/8		1,533	1,683	9,737
Increase in first full L3 achievements since 2007/8 as a result of the duty		77	84	487

Costs of the duty for Level 3 qualifications

All of the costs applicable to the Level 2 duty are applicable here. An additional deadweight cost also applies to the Level 3 duty for Train to Gain learning only, because employers who would

have paid for training in the absence of the duty will now not have to under the new arrangements, from 2008/9 onwards. Assuming that 5% of each year's increases can be attributed to this legislative intervention, the expected discounted costs are summarised below.

Table 12a: Costs of the duty for Level 3 - Further Education

	2008/09	2009/10	2010/11	Total
Total costs for DIUS	£690,094	£1,622,474	£1,821,834	£4,134,401
Earnings loss and cost of learning to learners	£2,173,578	£4,866,098	£5,418,674	£12,458,351
Deadweight Cost	£0	£0	£0	£0
Total costs	£2,863,672	£6,488,572	£7,240,509	£16,592,752

Table 12b: Costs of the duty for Level 3 – Train to Gain

	2008/09	2009/10	2010/11	Total
Total costs for DIUS	£172,521	£185,957	£1,067,510	£1,425,988
Earnings loss and cost of learning to learners	£808,355	£887,774	£5,000,628	£6,696,757
Deadweight Cost	£4,665,116	£5,905,627	£23,871,656	£34,442,398
Total costs	£5,645,992	£6,979,357	£29,939,794	£42,565,143

Benefits to Individuals, Employers and Society of level 3

We estimate the average lifetime productivity benefit for learners of this age group taking their first full Level 3 course to be around £44,000, in 2007/08 prices[46]. This assumes the mixture of full Level 3 courses currently studied remains similar in future and that those qualifying with a Level 3 qualification previously held a Level 2 qualification.

Net impact of the duty to secure Level 3.

8.18 Assuming that the intervention will be responsible for 5% of the total number of successful qualifiers expected up to 2010/11, the duty to secure Level 3 courses will generate an estimated total benefit of approximately **£56m for FE learning and £27m for Train to Gain learning**. Setting this off against the costs reveals an estimated overall net benefit of approximately **£40m for FE learning and minus £15m for Train to Gain learning**; and an overall NPV of approximately **£25m.**

Sensitivity Analysis

8.19 The NPV calculations assume that the intervention will be responsible for 5% of the total benefit of meeting our success rate targets. It is reasonable to assume that the impact on Train to Gain learning could be considerably larger. In 2008/09, employers will no longer have to contribute towards course fees for employees aged 19-24, studying towards their first full Level 3. The movement towards free provision can be considered as highly influential lever that encourages people into learning. Again, sensitivity analysis has been performed, showing the potential NPVs of the intervention under a range of scenarios. This is shown in tables 13 and 14.

[46] From DIUS internal analysis, using evidence from McIntosh (2007): A Cost Benefit Analysis of Apprenticeships and Other Vocational Qualifications, DfES RR 834.

Table 13: Range of NPVs for FE

Contribution to overall benefits	Benefits to FE	Costs to FE	NPV
1%	£11,331,500	£3,318,550	£8,012,950
5%	£56,657,500	£16,592,752	£40,064,748
7.50%	£84,986,250	£24,889,128	£60,097,122
10%	£113,315,000	£33,185,504	£80,129,496

Table 14: Range of NPVs for Train to Gain

Contribution to overall benefits	Benefits to TtG	Costs to TtG	NPV
5%	£27,071,284	£42,565,143	-£15,493,859
10%	£54,142,568	£50,953,111	£3,189,457
15%	£81,213,851	£59,075,855	£22,137,997
20%	£108,285,135	£67,198,599	£41,086,536

8.20 The tables show that the intervention is very capable of delivering a positive NPV for Train to Gain and FE learning. For FE learning, the duty only need contribute a very small amount to meeting our success rate targets to generate a net benefit. Whilst the impact for Train to Gain Learning needs to be higher, this is entirely achievable given the ability of the policy to influence participation.

Costs to Government – associated with data-sharing

8.21 Under the proposals for data sharing and matching in the Bill, the matching process will be carried out by DWP. They have significant expertise in this area, and already match their data with that of HMRC to form the Work and Pensions Longitudinal Study. They have agreed to act as the agent for both DIUS and HMRC in this case.

8.22 There will be no additional costs to business or individuals as a result of this proposal as the required data is already collected by the Government. The costs associated with setting up the data matching process are estimated at around **£50k** in the first year, in order to pay for full-time statistical staff. Once the data matching process has been set-up, the costs will reduce significantly for subsequent years.

8.23 We currently have a research project in the field investigating the costs of setting up a matched dataset, and this project will help us to firm up our estimates. As an illustration of the likely costs involved, a follow-up at 18 months of the Framework for Excellence destinations survey, to allow us to look at the destinations of learners in the absence of datasharing, has a likely cost of around **£1.5m**.

8.24 Sharing this data will enable the Government to assess the extent that the courses attained by adult learners are improving their employability and prosperity. If we were not