

# Research into qualifications costs and benefits

September 2009



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# Introduction

Government Skills, as the Sector Skills Council (SSC) for central government, has a lead role in influencing and shaping the future development of qualifications in the UK Civil Service. Alongside this, the UKCES and the regulatory authorities for England, Wales and Northern Ireland are developing a new qualifications approval system which will give SSCs an enhanced role in ensuring that all new qualifications meet the needs of the sector. This is one part of a much bigger programme to reform the vocational qualifications system in the UK.

Government Skills is currently working to develop a strategic qualifications framework for the Civil Service. The framework is intended to deliver a more coherent approach to qualification use and focuses on professions working within departments to define approaches to qualifications. As articulated in the Sector Qualification Strategy, Government Skills will:

*“...work in collaboration with professions and departments to identify where increased use of qualifications would add real value to the sector and to work with the supply side to make them a reality.”<sup>1</sup>*

Within this framework qualifications, or accredited learning programmes, will be used to develop and accredit the skills the Civil Service needs in both the short and longer term. The first stage of this work is the development of a business case to support the proposed approach to qualifications. The business case is intended to secure buy-in from professions and departments by setting out the benefits for individuals, government departments and the Civil Service in addition to the associated costs.

The purpose of this research is to inform the business case by helping Government Skills to quantify the costs and benefits of a qualification or accreditation-based approach in contrast to other forms of non-accredited training. The research is to identify a range of definitions and indicators of costs and benefits to supplement the following benefits and costs identified by Government Skills:

- Benefits
  - For individuals, the opportunity to obtain recognised, transferable skills;
  - For departments, higher levels of credibility with customers and increased flexibility to deploy staff in response to changing priorities; and
  - For the Civil Service, a means of building consistently high quality cross-government teams and establishing a benchmark from which to further build capacity and capability.

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<sup>1</sup> Government Skills (2008) *A Sector Qualification Strategy for Central Government*.

- Costs
  - Additional costs associated with accreditation by a professional body, higher education institution or awarding organisation;
  - Time spent pursuing qualifications; and
  - Fit of available qualifications with Civil Service needs.

It is important to note that Government Skills are not concerned with traditional cost benefit analysis that associates qualifications with wage returns; this report will help to identify a wider range of alternative costs and benefits.

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# 1 Costs of a qualification approach

## 1.1 Introduction

The purpose of qualifications is a long running debate, and up until the 1960s education was primarily seen as a consumption good i.e. as a status symbol for those who could afford it. Following the shift towards a view that education builds 'human capital', considerable debate has ensued about the labour market role of education and training. This has particular relevance for any discussion of the costs to an employer of a qualification based approach to training, as most qualifications benefit the individual both immediately and in the future, but are a cost to the employer and could in theory be avoided by hiring already qualified workers.

There are several identified costs to a qualifications approach, both financial and non-financial. Financial costs are by their very nature easier to gauge, whilst non-financial costs are less quantifiable. It should be noted that much of the literature on the costs of qualifications focus on the financial costs; there is less evidence available on the less tangible costs to organisations and individuals.

This section separates these costs into direct and indirect, and considers who pays for a qualification approach and how best the Civil Service can manage these costs.

## 1.2 Direct costs of qualifications

The simplest measure of the costs of a qualification approach is the **monetary cost of commissioning training**. Any qualification offer needs to deliver the optimal level of knowledge to improve job performance and the qualification costs should be in line with the enhanced performance. The complication of this for the Civil Service is that there are few, if any, comparable measures of output per worker and thus little way of making this judgement consistently.

### 1.2.1 Resource costs

All training through qualifications bears a cost. McIntosh identifies the three primary sources of financial costs from training as:

- resource costs to the state in providing the qualification;
- resource costs of training being provided by the employer; and
- value of output lost through the employee not being in work.<sup>2</sup>

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<sup>2</sup> McIntosh, S. (2007) *A Cost-Benefit Analysis of Apprenticeships and Other Vocational Qualifications*, Department of Economics University of Sheffield on behalf of Department for Education and Skills, Research Report RR834.

## Resource cost to the state

Figures 1.1 and 1.2 show the state cost element of McIntosh's wider cost-benefit analysis of qualifications and, although the values are somewhat dated, they provide a useful understanding of the cost of a qualification. For example, figure 1.1 shows the cost of different types of vocational qualifications over the life time of the course – a Level 2 Modern Apprenticeship costs an average of £4,712, compared to £6,536 for a Level 3 Modern Apprenticeship. These figures exclude wages paid to apprentices<sup>3</sup> and their output while at work, but cover the direct costs of providing training and the costs of staff time and equipment to support the training.

**Figure 1.1: State costs of training by type of qualification**

	Level 2	Level 3
Modern apprenticeships	£4,712	£6,535
NVQ	£3,240	£3,119
VRQ	£3,872	£9,633

Source: McIntosh, S. *A Cost-Benefit Analysis of Apprenticeship and Other Vocational Qualifications* (DfES, 2007)

McIntosh also produced sectoral costs (figure 1.2) illustrating the variation by sector, which are clearly much higher in the more technical and capital intensive sectors of construction and engineering, and where training may take longer to complete.

**Figure 1.2: State costs of modern apprenticeship by qualification**

Sector	All levels
Construction	£6,113
Engineering	£7,329
Business Administration	£3,899
Retail and customer services	£3,755
Hospitality	£4,107
All	£5,251

Source: McIntosh, S. *A Cost-Benefit Analysis of Apprenticeship and Other Vocational Qualifications* (DfES, 2007)

<sup>3</sup> Wages are generally excluded from costs because they are assumed to represent a private transfer between employee and employer

For work-based qualifications, in 2008/09 there was a standard subsidy funding rate of £2,775 through the LSC Employer Responsive (ER) funding stream, but this is adjusted based on numerous factors that address full or partial eligibility such as age and previous qualification, local costs and local deprivation. At the same time a variety of wage subsidies and contributions towards discrete course costs (for example, equipment) exist that make the calculation of overall expenditure more complicated.

### **Resource cost to employers**

There are also expectations that employers make a contribution to the cost of qualifications, which was 42.5 per cent of this value in 2008/09 and will rise to 50 per cent by 2010/11<sup>4</sup>, although the government is prevented from subsidising training in the Civil Service in the same way that it subsidises private sector employers – the rationale being that central government should lead by example<sup>5</sup> – so there is an additional cost to consider from being a public sector employer. These costs could be partly offset by charging learners as, by raising ‘human capital’ or from being just a ‘signal’ of ability, qualifications offer increased job mobility to the trainee and are therefore of benefit also to them and not just to the employer (see chapter 2 for further information on the benefits of qualifications to individuals).

It should also be noted that although the employer bears a cost for the qualification, the estimated payback time in the form of productivity is relatively short for many qualifications. A study shows that apprenticeships in Business Administration, one of the most common apprenticeships in the public sector, are a relatively low-cost investment to the employer, with apprentices providing a strong contribution already when in training, offsetting much of the supervision and assessment costs.<sup>6</sup> Figure 1.3 also illustrates the estimated payback time for employer investments in a range of other apprenticeships.

**Figure 1.3: Estimated employer cost and payback time for apprenticeships<sup>7</sup>**

Apprenticeship	Cost (estimated)*	Payback (estimated)
Engineering	£28,762	Less than 3 years
Construction	£22,043	Less than 2 years
Hospitality	£4,326	Just over 1 year
Retail	£2,305	Less than 2 years
Social care	£4,359 - £7,743	In 4 years
IT	£4,500	Less than 1 year

<sup>4</sup> DIUS, DCSF and LSC (2008) *Government Investment Strategy 2009–10, LSC Grant Letter and LSC Statement of Priorities: Investing in our future through learning and skills.*

<sup>5</sup> LSC (2008) *Funding Guidance 2008/09: Principles, Rules and Regulations.*

<sup>6</sup> Warwick Institute of Employment Research (2008) *Net benefit to employer investment in apprenticeship training.* A report for the Apprenticeship Ambassadors Network.

<sup>7</sup> Table taken from

[http://www.employersforapprentices.gov.uk/docs/research/Research\\_1\\_547.doc](http://www.employersforapprentices.gov.uk/docs/research/Research_1_547.doc)

Business Administration	£3,464 - £3,898	Less than 2 years
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Source: Warwick Institute of Employment Research (2008) *Net benefit to employer investment in apprenticeship training. A report for the Apprenticeship Ambassadors Network.*

### 1.2.2 Who bears the cost? General v. specific training

When an employee completes a qualification they gain a verifiable piece of information that they can display to other potential employers, which may make it easier to get other jobs or demand higher wages from the current employer. For this reason it is generally assumed that employees are keener on general, transferable training (ideally qualifications) and are prepared to share the cost of such training through reduced starting wages, unpaid leave to train or payment towards the costs. However, where a company takes the approach of only offering non-accredited employee training that is specific to the company, its processes and their role in it, then the skills are (usually) less transferable.<sup>8</sup> Benefits accrue to the employer (productivity and profitability) as much as the employee (wage growth), if not more, so they also bear much of the cost. In this standard theory employees pay for general training, and employers pay for specific training.

However, the debate about general and specific training does not play out so smoothly in practice. For example, certification does not appear to significantly increase the willingness of individuals to participate in paying for education and training,<sup>9</sup> and Bishop puts forward the following reasons why employees may not invest in more transferable, general training:

- an employee may be less well placed to understand the wider applicability of the general skill for their future career, and so choose not to invest; and
- employees are also more intransigent about paying for qualifications if they are young or poorly paid.<sup>10</sup>

General training still benefits the employer in the short term, so is desirable for both employer and employee. Given the risks to an employee of finding it difficult to finance the qualification, the firm capturing the specific benefits of general training and the 'stickiness' of wage growth post-training, the only way for an employer to realise an optimal level of general qualifications is to fund it themselves and extract the benefits later. Bishop shows that some employers are prepared to fully fund general training while there are few observable wage penalties in the short term, that is, the workers wages are rarely reduced during

<sup>8</sup> Becker, G.S. (1964) *Human capital: A theoretical and empirical analysis, with special reference to education.* National Bureau of Economic Research.

<sup>9</sup> Booth, A. and M. Bryan (2002) *Who Pays for General Training?: New Evidence for British Men and Women,* IZA Discussion Paper, No. 486.

<sup>10</sup> Bishop, J. (1994) *The Incidence of and Payoff to Employer Training: A Review of the Literature with Recommendations for Policy,* Center for Advanced Human Resource Studies, Cornell University.

training.<sup>11</sup> Bishop also reviewed evidence from the UK in the 1980s that suggested qualifying engineering apprentices in the UK cost companies more than a skilled employee, in addition to them being less productive for the first few years of their career. In summary:

*“Clearly, some companies feel strongly enough about the need for their workers to improve these general skills, they were willing to pick up most of the costs of developing skills which are highly useful at other companies and in everyday life.”<sup>12</sup>*

So why do some employees receive general training that will benefit them in the future, yet it is paid for by the employer? It is likely that the productivity growth of an employee undergoing a broad training programme that includes general training is faster than the wage growth,<sup>13</sup> contrary to Becker’s standard theory of human capital.<sup>14</sup> This argument relies on an assumption that employers are able to recognise staff who have the potential to increase productivity at the hiring and assessment stage, and then train them accordingly. Yet econometric evidence suggests that, even after all observable measures of potential are taken into account, employers pay for general training regardless of measured ability.<sup>15</sup>

Assuming self-interest on the part of employers, general skills (reading, writing, communication and the like) are funded because they are a pre-requisite for learning occupationally specific skills. This suggests that training requires a degree of interconnectedness, even for more complex general skills, but there are implicit risks to an employer that require them to ‘bundle’ training together to reap the rewards. The worker does not pay for the training because they bear the cost via lower growth in wages following the training. The employer reaps the reward in the short to medium term, while the employee gets the long term career benefits through enhanced internal and external career prospects.

### **1.2.3 Cost variations**

Costs can differ depending on the time taken to realise benefits (i.e. a course may take longer than another to complete, or productivity gains to be realised, resulting in a lost opportunity from simply hiring someone who already has those skills), but can also vary due to a number of other factors; to establish the precise cost of a qualification based approach requires an in-depth cost-benefit analysis of tuition fees; expenditure on in-house commissioning, monitoring or delivery; any associated capital costs; time away from work; examination fees etc. In practice financial costs can only be assessed on a case by case basis as the myriad financial factors are too broad to produce useful averages for individual investment decisions. At a strategic level there are wider implications

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<sup>11</sup> Bishop, J. (1994) *The Incidence of and Payoff to Employer Training: A Review of the Literature with Recommendations for Policy*, Center for Advanced Human Resource Studies, Cornell University.

<sup>12</sup> Ibid.

<sup>13</sup> Ibid.

<sup>14</sup> Becker, G.S. (1964) *Human capital: A theoretical and empirical analysis, with special reference to education*. National Bureau of Economic Research.

<sup>15</sup> Bishop, J. (1994) *The Incidence of and Payoff to Employer Training: A Review of the Literature with Recommendations for Policy*, Center for Advanced Human Resource Studies, Cornell University.

of a shift towards a qualification based approach to workforce development on this basis. The costs for qualifications can therefore vary dramatically, and it is not the intention to fully review them here.

The key distinction that does need to be drawn out is the specific costs of a comparable level of qualification based training compared to non-accredited training. This should only be those costs directly associated with getting or supporting delivery of the qualification, for example examination fees and revision time. It is however hard to distinguish the financial costs of the learning element of qualifications against the costs of non-accredited courses. The question is: does an equivalent amount of learning cost more when it is for a qualification or non-accredited course? There is no benchmarked evidence available, and unless this is produced it is best to assume that teaching time would be equivalent, and so costs would also be equivalent.

## **1.3 Indirect costs of a qualification based approach**

### **1.3.1 Administrative costs**

Aside from the direct costs to an employer that qualifications will incur, a large organisation such as the Civil Service must also consider the costs of managing the process as well as the costs of tailoring off-the-shelf products to meet the individual needs of departments and professions. There would also need to be information resources for potential learners, via websites, internal marketing campaigns and briefing sessions, and the system of qualifications would need to be responsive to the needs of departments, professions and grades.

There are also already significant resources deployed in the form of the National School for Government,<sup>16</sup> and the many learning and development staff, and a qualification based approach would add to this. However, although a qualification based approach may require further management time and hence cost, this is likely to be lower than in organisations which do not already have a strong training culture and support mechanisms.

Qualifications by their very nature also require comparability across an agreed set of taught competencies. Revision of National Occupational Standards (NOS), development of flexible modular structures driven by the Qualifications and Credit Framework (QCF) and other operational considerations all generate additional costs.

In comparison, non-accredited training costs are likely to fall more on the worker. Assuming they have received equivalent training, but no qualification, it is more difficult for the non-accredited worker to demonstrate that they would be as productive as a worker with qualifications at interviews or assessments; the signals that qualifications and examinations provide are not available.

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<sup>16</sup> And the Northern Ireland Centre for Applied Learning, Scottish Government Corporate Learning Services and Elisha on behalf of the Welsh Assembly Government.

### 1.3.1 Cost of employees leaving

There is a consistent view that in Britain the level of training is less than is socially or economically optimal<sup>17</sup> and a reason often cited in the literature for why employers do not fund more training, including qualifications, is that the employee can then leave for a better wage elsewhere.

Employers benefit from the training in the long run, but will be therefore concerned that employees will leave before these benefits are realised. This would seem well founded as a publication by OECD on job-related training and benefits for individuals reviewed evidence on the effects of training investments for different individuals and found that SME employees receiving a qualification are significantly more likely to have changed employer after the training than those not receiving a qualification.<sup>18</sup> The incentive is therefore for an employer to undertrain and to seek employees who have already been trained by another employer or at their own expense.

Yet these associations break down when different factors are brought into play, and a more complex analysis of each decision to invest in training is required. For example, analysis by Bishop suggests that employees who receive formal training are less likely to leave or be laid off or dismissed.<sup>19</sup> Bishop found that workers receiving formal off the job training are 31 per cent less likely than average to leave and 69 per cent less likely to be laid off or dismissed, and their likelihood of quitting is no higher than workers not receiving formal training. Formal on the job training is generally associated with lower leave and dismissal rates too, although the magnitudes are small. However, it tends to be more stable, higher skilled roles that offer more training, whilst low skilled work (with less training) has high staff turnover, so the average disguises the interplay of employment regulations, economic structure and decision making.

European evidence suggests that it is instead the source of finance that determines whether workers go looking for new work after qualification and that if the employer pays this is less likely. It shows that, on balance, firm financed and firm specific training is more likely to reduce worker mobility than self financed or certified training.<sup>20</sup>

For a general employer there are a multitude of methods to overcome the costs of mobility. The public sector cannot really use the typical methods used in commercial environments, for example non-compete contracts, confidentiality agreements, competitor employment clauses etc.<sup>21</sup> Of more relevance are human resources practices that ensure an employee utilises their newly learned skills or receives greater autonomy. These may increase willingness to stay on,

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<sup>17</sup> HM Treasury (2002) *Developing Workforce Skills: Piloting a New Approach*.

<sup>18</sup> Devins, D. et. al (2004) *Employer Characteristics and Employee Training Outcomes in UK SMEs: A Multivariate Analysis*, Journal of Small Business and Enterprise Development, Vol. 11, No. 4, pp. 449-457. Cited in Hansson, B. (2008) *Job-Related Training and Benefits for Individuals: A Review of Evidence and Explanations*, OECD Education Working Papers, No. 19, OECD publishing.

<sup>19</sup> Bishop, J. (1994) *The Incidence of and Payoff to Employer Training: A Review of the Literature with Recommendations for Policy*, Center for Advanced Human Resource Studies, Cornell University.

<sup>20</sup> Hansson, B. (2008) *Job-Related Training and Benefits for Individuals: A Review of Evidence and Explanations*, OECD Education Working Papers, No. 19, OECD publishing.

<sup>21</sup> Ibid.

as they increase worker satisfaction. This is not specific to the Civil Service, but more direct approaches can be tailored for a large internal labour market. For example, employers often attempt to reduce the mobility of an employee post training to prevent leaving, a so called payback scheme. They can mitigate risks by setting a condition that if an employee leaves soon after receiving training, often a qualification, then they will have to contribute to the cost of qualifications or accredited training that the employer has already borne. This allows the employer to recoup the money back through holding wage growth. Given its size, the Civil Service as a whole can also offer internal mobility, which might be enhanced by stipulating that the payback scheme only applies if the worker leaves the Civil Service, rather than their current department or post.

Evidently any worker who has a qualification can be more mobile than an equivalent worker without one. For the Civil Service the question is whether it can benefit from or mitigate this increased mobility? The answer is that the Civil Service is well placed to capture the benefits of mobility because of the size of its internal labour market and is therefore less likely to incur costs of employees leaving due to gained qualifications.

## 2 Benefits of a qualification approach

### 2.1 Introduction

This section summarises the findings from a range of literature and case study examples on the benefits of a qualification approach to workforce development, covering the wider economic value and also value to individuals and the Civil Service.

Although the evidence is quite compelling, and qualifications are backed by central government, it should however be noted that in literature much of the focus is on the benefits of training in terms of the monetary returns to individuals but there are fewer studies that quantify or even consider the wider benefits of such training to either individuals or employers.

### 2.2 Economic value of qualifications

The UK education and skills agenda developed significantly in 2006 with the publication of the Leitch Review of Skills, independently commissioned to challenge public agencies and private organisations to achieve long term ambitions for economic growth, productivity and social justice through skills. Leitch based his recommendations on the direct relationship between skills, productivity and employment, and the shared benefit to employers, individuals and the economy from higher skills generating higher productivity at work (although Grugulis and Stoyanova<sup>22</sup> convey caution in linking performance solely to improving skills and qualifications). A further argument for raising skills levels is that it is socially beneficial because work is more sustainable and better paid at the higher-skilled end of the spectrum, and there are also wider positive impacts on crime and health.<sup>23</sup>

Skills and qualifications are closely linked, with the qualification profile of sectors and locations frequently used as a proxy to measure levels and progress of skills development. Qualifications are therefore integral to the vision of Leitch in raising skills in the UK:

*“The UK’s skills profile is improving as a result of a skills system focused on people getting full qualifications.”<sup>24</sup>*

Broadly, qualifications are associated with a number of wider benefits beyond wage returns (which are the focus of many studies of the rate of return of qualifications). For example, in the 2005 Skills White Paper full Level 2 qualifications are described as a platform of skills for employability, and as a means of providing benefits in terms of:

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<sup>22</sup> Grugulis, I. and Stoyanova, D. (2005) *Skill and Performance*, Paper presented at the International Labour Process Conference, 21st – 23rd March 2005, University of Strathclyde.

<sup>23</sup> Feinstein (2002) *Quantitative estimates of the social benefits of learning*, The Centre for Research on the Wider Benefits of Learning, Institute of Education.

<sup>24</sup> Leitch, S. (2005) *Prosperity for all in the global economy - world class skills*, HM Treasury.

- higher rates of employment;
- higher self-confidence on the part of the learners and greater willingness to undertake more learning;
- a greater likelihood that employers will invest in further training and qualifications for those who already have some qualifications; and
- social benefits such as association with better health, less criminality, and a more positive attitude towards social diversity.<sup>25</sup>

However, the benefits of qualifications will only be maximised for individuals and employers if they are of economic value:

*“On the job training is a vital source of skills development and not all training should be formal. However, focusing as much training as possible on qualifications, as long as qualifications reflect economically valuable skills, brings enormous benefits to both individuals and employers.”<sup>26</sup>*

The Government response to a publication by the Innovation, Universities, Science and Skills Committee to build on progress since Leitch,<sup>27</sup> also raises concerns about taking a fully qualification-based approach to skills development in the UK:

*“Too great an emphasis on qualifications may skew policy away from skills which are needed now and for the future development of individuals, companies and the economy in favour of more easily measurable, but less relevant certificated courses.”<sup>28</sup>*

*“A real skills and training strategy would focus more on skills utilisation by companies to achieve high performance working practices and so raise productivity.”<sup>29</sup>*

A point of caution is also the concept of skills and qualifications in service functions, which is slightly different to production industries, and is as much about soft skills as technical knowledge, if not more so. The results from National Adult Learning Survey (NALS) suggest that vocational courses are more likely to involve learning leading to a qualification than non-vocational courses,<sup>30</sup> which has important implications for the type of qualifications appropriate to the Civil Service. The central government workforce is also already highly qualified, in terms of qualifications, compared to other industries.

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<sup>25</sup> HM Government (2005) *Skills: Getting on in business, getting on at work Part 2*.

<sup>26</sup> Leitch, S. (2006) *Prosperity for all in the global economy - world class skills*, HM Treasury.

<sup>27</sup> Innovation, Universities, Science and Skills Committee (2008) *Re-skilling for recovery: After Leitch, implementing skills and training policies: First Report of Session 2008–09*.

<sup>28</sup> *Re-skilling for recovery: After Leitch, implementing skills and training policies: Government Response to the First Report from the Committee, Session 2008–09*.

<sup>29</sup> Ibid.

<sup>30</sup> Snape et al. (2006) *National Adult Learning Survey (NALS) 2005*, National Centre for Social Research on behalf of the Department for Education and Skills, Research Report 815.

## 2.3 Value of qualifications to individuals

According to the NALS, it is the view of around three-quarters of respondents that qualifications are needed “*to get anywhere these days*”. The key question is whether these learners undertake qualifications because they have an intrinsic developmental value or just that the most able, or the most eager, undertake qualifications to signal their ability.

Individuals are beneficiaries of many of the broader outcomes from qualifications – for example, qualifications are portable and offer individuals the flexibility to advance, change jobs and careers to match their ambitions.<sup>31</sup> Qualifications also provide individuals with the opportunity to improve their skills and background knowledge, and act as a signal of ability in a particular job role or skill to recruiting organisations (although lack of information about the training investment does reduce the ability of employees to signal their training to an outside employer<sup>32</sup>). Qualifications are routinely used in recruitment screening, although less so in central government (where most departments conduct competency based recruitment) than other sectors.<sup>33</sup>

These points are evidenced in a study by the Training and Employment Research Unit (TERU) at the University of Glasgow, which found that “*the single most important benefit of undertaking a qualification is the ‘currency’ it provides for employees which they can ‘spend’ in the wider labour market.*”<sup>34</sup> A further conclusion from the study was that “*significant percentages reported increased self-confidence and greater job satisfaction associated with gaining a qualification which is a recognition of a new or enhanced skill level.*” Eighty seven per cent of employees surveyed reported that accreditation provided benefits additional to training with no qualification.

The greatest proportion of learners on non-compulsory certified or qualification based courses in the NALS was at Level 2, indicating demand for qualifications at this level and likely take up amongst individuals to meet the central government Skills Pledge. In contrast, for many professions (and also of direct relevance to the Civil Service workforce) higher level (4 +) qualifications benefit individuals as they are a requisite for entry to a profession. Higher qualifications are important if individuals are to progress through their career to meet the demands of higher-level occupations<sup>35</sup> and provide greater certainty and structure of progression routes to achieve their career aspirations. Commentators on the knowledge economy also project an increase in the proportion of jobs requiring HE-level qualifications in general.

However, despite the advantages of non-accredited training over qualifications, it has been reasoned that not all skill progression and therefore the benefits of learning can be captured by qualifications, as most informal and non-formal

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<sup>31</sup> Leitch, S. (2006) *Prosperity for all in the global economy - world class skills*, HM Treasury.

<sup>32</sup> Katz, E. and A. Ziderman (1990) *Investment in General Training: The Role of Information and Labour Mobility*, The Economic Journal, Vol. 100, pp. 1147–1158. Cited in Hansson, B. (2008) *Job-Related Training and Benefits for Individuals: A Review of Evidence and Explanations*, OECD Education Working Papers, No. 19, OECD publishing.

<sup>33</sup> Experian (2008) *Demand for qualifications*, on behalf of Government Skills.

<sup>34</sup> Glass et al. (2002) *Delivering Work Based Learning*, TERU on behalf of the Scottish Executive.

<sup>35</sup> DfES (2003) *Education and Skills: The Economic Benefit*.

learning that does not lead to certification is still an important form of employee development.<sup>36</sup> A qualification centred approach may therefore lead to an underestimation of the skills of an individual and in some cases, qualifications are merely formal certifications rather than true reflections of a person's actual set of skills.

The nature of the benefits resulting from qualifications also differ by type, for example as Dearden et al. (2004) calculated different rates of return between vocational and academic qualifications (at Level 2). Compared to academic learning, vocational qualifications also have a lower opportunity cost from the lost work experience and time in work, as much of the qualification will be undertaken in the place of work rather than outside. The appropriateness of vocational versus academic qualifications will also differ by department, grade and profession in the Civil Service.

The opportunity to gain a qualification is also not necessarily the main reason for an individual to undertaking training, as one-quarter (26 per cent) of learners on non-compulsory job-related courses in the NALS were studying to gain a certificate or qualification compared to 41 per cent doing it to improve knowledge or ability in the subject. Learners and non-learners in the survey also in general disagree that learning is only worthwhile if there is a qualification at the end (74 per cent and 59 per cent respectively disagree with this statement). However, non-learners tend to place less value on learning for its own sake and were twice as likely as learners to agree that only qualification-based learning is worthwhile.

## 2.4 Value of qualifications to employers

To the benefit of employers, the generic skills of individuals do increase with qualification levels, and this is the case whether qualifications are believed to raise 'human capital' or are just a 'signal' of ability:

*"As individuals increase their qualifications, for example, it is necessary for them to be increasingly adept at such skills as literacy, problem solving and the ability to learn. It may also be the case that the actual process of educational achievement encourages the development of skills widely utilised in the workplace such as organisation of time, team work, literacy and numeracy."<sup>37</sup>*

Leitch further describes the benefits of qualifications to employers, in recognising that individuals will have the motivation to put effort into completing their training (and therefore the investment is not wasted) as a qualification or certificate is confirmation of the skills they have acquired and also provides recognition of the value of their skills to the business. However, it is important to note that once a qualification is achieved it will not necessarily follow that the skill acquired is being used or is useful,<sup>38</sup> unless the employer and individual are committed to utilising the new skills learnt. Qualifications could also be viewed

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<sup>36</sup> DFES AND DWP (2007) *A Shared evidence base The role of skills in the labour market*.

<sup>37</sup> Experian (2008) *Demand for qualifications*, on behalf of Government Skills.

<sup>38</sup> Innovation, Universities, Science and Skills Committee (2008) *Re-skilling for recovery: After Leitch, implementing skills and training policies: First Report of Session 2008–09*.

just as a snapshot measure, certifying someone's skill level at a particular moment, but the skills may decay over time if not maintained.<sup>39</sup>

Evidence of the benefits of qualifications to employers is presented in research conducted by PWC, which found that over one in two employers surveyed felt that it was quite or very important that the training they provided led to a qualification.<sup>40</sup> The most common reasons given were to enable staff to do their jobs, to motivate staff and industry and regulatory requirements. The latter reason particularly demonstrates the benefits of a qualification approach for central government employers to have the systems in place if a statutory entitlement to workplace training for individuals without a full Level 2 qualification or equivalent is introduced by government, and also to meet their current commitment to the Skills Pledge.

In addition to the PWC research, Train to Gain aims to encourage employers to invest in the development of the skills and qualifications of their employees, and so provides a useful source of information on how employers view the offer of qualifications for their workforce (although employers in the Civil Service are not entitled to the Train to Gain subsidy that other private sector employers are). Findings from evaluative research of the service are that employers report considerable benefits from staff participation in training leading to qualifications, including:

- improvements in employee self-confidence;
- improvements in job-related skills and performance in their work role;
- improvements in staff retention;
- a reduction in absenteeism; and
- an improvement in the ability of the organisation to attract and recruit good staff.<sup>41</sup>

Training to Level 3 (through Train to Gain) is also associated with an above average incidence of benefits to the day-to-day running of the employer organisation and to the long-term competitiveness of the business.<sup>42</sup>

The earlier cited TERU study also reported a wide range of employer motivations for offering accreditation of the work based learning they provided, based on a survey of 270 employers:

*“The most frequently mentioned motivation was getting their employees up to a nationally recognised qualification level.*

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<sup>39</sup> DfES and DWP (2007) *A Shared evidence base The role of skills in the labour market.*

<sup>40</sup> PWC (2005) *The Market for Qualifications in the UK, Final Report to: Qualifications and Curriculum Authority. Qualifications, Curriculum and Assessment Authority for Wales. Council for the Curriculum, Examinations and Assessment for Northern Ireland.*

<sup>41</sup> *Train to Gain Employer Evaluation: Sweep 4 Research Report*, IFF and IER on behalf of the LSC, June 2009.

<sup>42</sup> *Train to Gain Employer Evaluation: Sweep 4 Research Report*, IFF and IER on behalf of the LSC, June 2009.

*Around a third of employers reported principal motivations which linked directly or indirectly to the competitiveness or effectiveness of their organisation.*

*Improvements to staff morale and higher retention rates were mentioned as the main motivations by 14% of employers and 9% said they accredited work based learning mainly in order to access government funding to support their training effort.”<sup>43</sup>*

Employers in the TERU study also viewed accredited training as more valuable than non-accredited training in helping to:

- create industry wide skills;
- develop core skills;
- improve company image in the marketplace;
- create employer specific skills;
- improve staff morale; and
- increase staff loyalty to the company.

However, non-accredited training was more valuable than accredited training in raising employee productivity and developing more flexible employees. This may help to explain evidence from the 2007 National Employer Skills Survey that shows the use of qualifications is less frequent within organisations than other forms of training and development, as around two-thirds of employers had provided the latter in the previous 12 months compared to just 11 per cent of employees training towards a nationally recognised qualification (although this is slightly lower than the average of 14 per cent in the Government Skills footprint).<sup>44</sup>

This compares to Skills for Care and Development, where employers in its footprint trained 28 per cent of the workforce towards qualifications, and it is recognised in the Sector Qualification Strategy for the sector that increased regulation and registration of the adult social care workforce using qualifications as an indicator (National Minimum Standards) is a key driver of this.<sup>45</sup> This example demonstrates how qualifications help to regulate quality and standards, which are important in the Civil Service as citizens increasingly judge the quality of public services delivery rather than just the outputs. There is also growing emphasis on central government links with the private sector, and by using externally accredited qualifications the Civil Service can show equal competence to other organisations.<sup>46</sup>

#### **2.4.1 Evidence of the value of qualifications to employers**

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<sup>43</sup> Glass et al. (2002) *Delivering Work Based Learning*, TERU on behalf of the Scottish Executive.

<sup>44</sup> IFF Research Ltd (2008) *National Employers Skills Survey 2007: Main Report*, on behalf of the LSC.

<sup>45</sup> SQS *Quality Standard: Skills for Care's completed Sector Qualifications Strategy template*, Skills for Care.

<sup>46</sup> Experian (2008) *Demand for qualifications*, on behalf of Government Skills.

Much of the available evidence on the value qualifications provide to employers relates to private sector organisations, but many of the benefits are transferable to the Civil Service.

Key transferable benefits noted by employers of a qualification based approach include:

- increased productivity;
- higher quality of work; and
- aiding retention and succession and reducing skills shortages.

A brief selection of evidence of the value of qualifications as stated by employers is presented below.

### ***Increased productivity***

As noted in chapter 2 of this report, increased productivity is a key benefit of a qualification based approach to training; this is also a key driver for providing any training in the first place.

*“Apprentices are brought up in a culture of learning and development. They are self-motivated, ready to take the initiative and go into problem-solving mode, therefore reducing production time for the work they do by up to 25%.”<sup>47</sup> (Mike Turner, BAE Systems plc)*

*“The Foundation degree has had real tangible effects on Young’s, we doubled volumes in meals using improvement techniques from the Foundation degree course and improved efficiencies of fish finger saws has resulted in a £100,000 saving. We reduced the number of rejects, worth £50,000 and an improved planned maintenance system has reduced breakdowns by 90%. This is a qualification that backs up experience. A lot of businesses have good people who have a lot of experience, the Foundation degree gives that added edge and exposure that can sometimes be missed if someone stays with a single business for a long time. It gives you a real sense of achievement!”<sup>48</sup> (Youngs Seafood, Food processing)*

### ***Higher quality of work***

Another benefit of a qualification based approach is the higher quality of work produced by the employee once training is completed; this approach is also beneficial in that it provides consistency in the work product across the workforce.

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<sup>47</sup> Apprenticeship Ambassadors Network, *Apprenticeships Business Benefits*.

<sup>48</sup> Foundation Degree Forward case study, Youngs

*“The Apprenticeships programme has led to a higher quality of work as demonstrated by quicker customer response times and more comprehensive statistical data.”<sup>49</sup> (Sheffield City Council, Local authority)*

*“Company quality systems and inspection procedures monitor apprentices throughout their working life. Evidence shows that apprentices complete tasks correctly at a rate of 85% right first time. External recruits complete tasks right first time at a rate of 60%.”<sup>50</sup> (BAE Systems, Engineering)*

*“As apprentices are given the correct tools to do the job from the start and are coached throughout their apprenticeship the quality of work is better than that of the adult (non-apprentice) engineer. Recent figures show a 1.5% increase in the quality of work compared to non-apprentice engineers.”<sup>51</sup> (BT, Telecommunications)*

*“The aim of the course is to improve the effectiveness of people already working in health care. All the students have found it a challenging and positive experience. Most of our recent graduates have been promoted as a direct result of taking the course.”<sup>52</sup> (NHS, health)*

*“One of the key benefits from our point of view is consistency. Apprentices provide us with a consistent level of skill in the kitchen. This has led to a greater level of stability within the kitchen.”<sup>53</sup> (Three Ways House Hotel, Hospitality and catering)*

### **Aiding retention and succession and reducing skills shortages**

A study by Warwick Institute of Employment Research for the Apprenticeship Ambassadors Network on benefits to employers of apprenticeships did however include some evidence from local government as well, as the business administration apprenticeship is commonly taken up by the public sector.<sup>54</sup> Some of the key benefits noted by employers here were that apprenticeships helped address the issue of an ageing workforce and succession, by bringing in more young people who brought energy, new thinking and new skills.

According to the Apprenticeship Ambassadors Network:

*“BAE Systems says that it has high retention rates (92%) because apprentices who start their careers with them have a higher commitment to the overall aims. British Gas (94%) and Carillion (85%) have similar retention figures, which are higher than their*

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<sup>49</sup> Apprenticeship Ambassadors Network, *Task Force Business Progress Report*.

<sup>50</sup> Ibid.

<sup>51</sup> Ibid.

<sup>52</sup> Foundation Degree Forward case study, NHS (Health Informatics)

<sup>53</sup> People 1<sup>st</sup> employer case study, Simon Coombe, Proprietor, Three Ways House Hotel.

<sup>54</sup> Warwick Institute of Employment Research (2008) *Net benefit to employer investment in apprenticeship training*. A report for the Apprenticeship Ambassadors Network.

sector averages. NG Bailey retains 90% of its apprentices each year, compared to an industry average of around 50%.<sup>55</sup>

There is further evidence from a multitude of sectors of these benefits:

*“There has also been a significant benefit to the business with staff turnover falling by around 12 per cent since the broader training scheme was introduced. ‘When surveying our people, staff satisfaction levels are better in homes where training has been fully embedded,’ says Ceri. ‘We also find that customer satisfaction levels are higher as well.’”<sup>56</sup> (BUPA, Healthcare)*

*“Our customers are at the centre of everything we do. That’s why we’re developing our employees through many different opportunities so that they have the skills to deliver the service that customers expect.”<sup>57</sup> (E.ON, Utilities)*

*“Support throughout the programme helps the AA to demonstrate its commitment to apprentices and to their future career development opportunities within the company. The AA has secured an 80% retention rate for staff on its Apprenticeships programme.”<sup>58</sup> (AA, roadside assistance)*

*“The Apprenticeship scheme produces a solidly skilled Chef. One of the issues in industry over the last ten years is a lot of young people coming in that don’t actually have a formal qualification behind them. I think what the Apprenticeship gives is a solid base, it’s a building block and once they’ve got that they can actually progress at a quicker and better rate in the kitchen.”<sup>59</sup> (Three Ways House Hotel, Hospitality and catering)*

It should be noted that the available evidence suggests that the main reason for organisations publishing case studies is to promote a programme or product. As qualifications are a government ‘product’, the majority of evidence on the benefit to employers of qualifications is provided by government organisations, rather than the private sector or through independent research. Similarly, much of the available evidence relates to apprenticeships as there has been a national policy drive to increase the uptake of these qualifications.

## **2.4.2 Employer support for a qualification based approach**

### ***National Skills Academies***

National Skills Academies are a Government backed network of employer-led centres of training programmes and qualifications. The returns associated with the Network, as described on the website<sup>60</sup> are as follows:

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<sup>55</sup> Apprenticeship Ambassadors Network, *Apprenticeships Business Benefits*.

<sup>56</sup> <http://nationalemployerservice.org.uk/employers/bupa-care-homes/case-studies/466/>

<sup>57</sup> <http://nationalemployerservice.org.uk/employers/e.on-uk/case-studies/297/>

<sup>58</sup> Apprenticeship Ambassadors Network, *Task Force Business Progress Report*.

<sup>59</sup> People 1<sup>st</sup> employer case study, Simon Coombe, Proprietor, Three Ways House Hotel.

<sup>60</sup> <http://www.nationalskillsacademy.gov.uk/about/key-benefits.html>

- a better trained, highly skilled workforce, adapted to employers' needs;
- fewer skills gaps in key sectors of the economy;
- a broader base of potential recruits;
- improved productivity and real savings for employers; and
- a stronger economy, as skills training in key sectors benefits UK industry as whole.

Reports of success of the network to date focus on the qualifications it has supported, as illustrated through the following example:

*“National Skills Academy for Financial Services offers a range of professional qualifications from industry awarding bodies and courses such as personal finance and financial literacy. This range of qualifications will give learners a clear sense of progression and motivate them to reach the very highest levels.”<sup>61</sup>*

*“Up to the end of February 2009, the National Skills Academy for Financial Services has helped over 4,500 learners, 1,000 of whom are doing or have completed Apprenticeships.”<sup>62</sup>*

The National Skills Academy Process Industries is also implementing a project to register thousands of employees with existing, non-registered qualifications, as part of its drive to upskill the sector.

For degree level qualifications an alternative approach is employer designed courses. For example e-Skills have set up the Information Technology Management for Business degree. This is an employer designed degree, backed by major players in the IT industry such as Accenture, BBC, BT, Capgemini, Cisco, IT, Deloitte, and many more. Employers provide some lectures, placement programmes networking events, run graduate recruitment schemes and even assured interviews. The course focuses on technical skills and the softer skills that employers require from graduates, with employers inputting by signing up and feeding their views into a representative association.

### **Accreditation of employer training**

Common to all accreditation activities is *“the achievement of learning, or the outcomes of that learning, and not just the experience of the activities alone.”<sup>63</sup>* As highlighted by the CBI – an advocate of accreditation – even though individuals may carry on learning new skills and training throughout their working lives, this continual type of development is not routinely accredited by any formal awards.<sup>64</sup> The CBI therefore considers there to be benefits in accrediting existing employer training in the workplace to recognise all achievements.

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<sup>61</sup> *Introducing the National Skills Academy Network*, The National Skills Academy.

<sup>62</sup> <http://www.nationalskillsacademy.gov.uk/about/why.html>

<sup>63</sup> Ecotec, *A European inventory on validation of non-formal and informal learning*.

<sup>64</sup> <http://www.personneltoday.com/articles/2007/06/19/41277/external-accreditation-for-internal-training-and-learning-programmes.html>

Government is in support of recognising employer training through accreditation, to increase the opportunities and options for employees to study for a recognised qualification.<sup>65</sup> The benefits of training recognition, as promoted by fdf accreditation,<sup>66</sup> is that it helps better recruit, retain and motivate employees and also support staff who might not have considered taking higher education qualifications to extend their skills. The Employer Based Training Accreditation (EBTA) project, co-ordinated by fdf, is government-backed.

At a national level the QCA, in making qualifications more relevant to employer needs and as part of the vocational qualification reform process, has also introduced an Employer Recognition Programme to accredit in-house training. After a period of consultation, testing and approval this programme has been developed to include three approaches, and the identified benefits of each of these are as follows:<sup>67</sup>

- **Approach 1** - An employer becomes a recognised awarding organisation and provides the requisite standard of quality assurance to develop and award its own nationally accredited qualifications.

*“...will increase staff competence as well as confidence, leading to higher levels of Quality, Service & Cleanliness for our customers - a central aim of our business.”*

David Fairhurst, Senior Vice President and Chief People Officer, McDonald's

*“... we will have the ability to deliver officially recognised courses specifically designed to cater for our staff and business needs, increasing our competitiveness and recognising the hard work of our employees.”*

Simon Witts, Director of Safety, Quality & Training, Flybe

*“...will enable us to keep on setting industry standards for technical rail skills training in the UK and attract and develop a highly trained and motivated workforce.”*

Andrew McNaughton, Chief Engineer, Network Rail

*“...now we have the ability to ensure that military language skills, at whatever level, are understood by those outside the Services.”*

Commander Andy Copley, Commanding Officer of the Defence School of Languages

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<sup>65</sup> *Re-skilling for recovery: After Leitch, implementing skills and training policies: Government Response to the First Report from the Committee, Session 2008–09.*

<sup>66</sup> [http://www.fdf.ac.uk/home/information\\_for\\_employers/employer\\_based\\_training\\_accreditation\\_e\\_bta/](http://www.fdf.ac.uk/home/information_for_employers/employer_based_training_accreditation_e_bta/)

<sup>67</sup> Full quotes are available at <http://www.qcda.gov.uk/19841.aspx>

- **Approach 2** - An employer works with an existing awarding organisation that designs and awards bespoke qualifications for the employer and provides the quality assurance and accreditation.

*“...will benefit both new employees, who will get access to top quality training, and our more experienced staff, whose knowledge will be rewarded with a nationally recognised qualification.”*

Gill Lewis, B&Q

*“Not only will it help us hit the targets set by the Leitch Review but it will offer our staff visible proof of their hard work and commitment, in the form of nationally recognised qualifications.”*

Peter Butler, Head of Learning, BT Group

*“Not only will this programme help toward improving services for children but it will also aid and give recognition to the huge amount of training undertaken by practitioners in their local area.”*

Shirley Eden, Health & Social Care and Children's services

- **Approach 3** - An employer works with a third party (for example a provider, sector regulator, trade association or professional body) that provides the quality assurance to meet the requirements of the national qualification system.

*“By working with employers in the accreditation of their own in-house training provision we not only help their employees get the qualifications they deserve for undertaking that training but also we, the College, gain an invaluable insight into the sorts of needs employers have of their workforce.”*

Dick Palmer, Principal at City College Norwich

The systems to accredit employer training is also being supported by the development of national frameworks. The Qualification and Credit Framework (QCF) replaces the National Qualifications Framework (NQF), to be a more flexible way of recognising and rewarding skills and qualifications. The QCF presents units and qualifications in a simpler way and it is designed to lead to qualifications that are flexible and meet the skills and knowledge needs of the workforce.

Case studies of the benefits from accrediting in-house training through national frameworks are presented in a report by ECOTEC.<sup>68</sup> These include SEMTA, which has utilised the QCF in Wales to recognise learning and development in-house. The main benefits are that accreditation of in-house training *“allows employers to build more flexible learning programmes based on ‘units’ of training”*, and also *“provides employees with a means of recognising their training and competencies, which can help them with their career progression and future learning.”*

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<sup>68</sup> Davidson, M. (2007) European Inventory on validation of informal and non-formal learning UK, ECOTEC Research & Consulting Ltd.

The Waste Management Industry Training and Advisory Board (WAMITAB) is also reported to have accredited 90 per cent of its vocational courses through the QCF in Wales, recognising that this allows learners to *“achieve mutual recognition with other qualifications”* and *“avoid repetition of units which appear in many qualifications.”*

## 2.5 Conditions for maximising the benefits of a qualification approach

Principles emerging from the literature, which if implemented in the Government Skills qualification framework will help to maximise the benefits from the qualifications it delivers, are as follows:

- the framework should have a straightforward, transparent and rational structure, and support career progression and flexibility;
- the framework needs flexibility for individuals to move across qualifications, not just up to higher levels;
- qualifications should be transparent, portable, prepare individuals well for future employability and be esteemed by other employers;<sup>69</sup>
- training should be flexible, allowing an individual to accumulate 'bite-sized' learning which can be built up into a portfolio over time<sup>70</sup> and into a recognised qualification within the national Qualification and Credit Framework;
- delivery providers should be flexible to allow for tailoring of 'off-the-shelf' qualifications to deliver to Civil Service needs;
- existing barriers to taking up qualifications are tackled – as cited in the *Demand for Qualifications*<sup>71</sup> report these are time to study, funding, ability to use new skills, and support of line managers;
- individuals must be able to make informed decisions about which qualifications will maximise their benefits, and employers must also recognise that these qualifications may not always reflect the skills that they demand.<sup>72</sup>

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<sup>69</sup> DfES and DWP (2007) *A Shared evidence base: The role of skills in the labour market*.

<sup>70</sup> Innovation, Universities, Science and Skills Committee (2008) *Re-skilling for recovery: After Leitch, implementing skills and training policies: First Report of Session 2008–09*.

<sup>71</sup> Experian (2008) *Demand for qualifications*, on behalf of Government Skills.

<sup>72</sup> DfES and DWP (2007) *A Shared evidence base The role of skills in the labour market*.

# Appendix A

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#### **Web resources**

<http://nationalemployerservice.org.uk/employers/bupa-care-homes/case-studies/466/>

<http://nationalemployerservice.org.uk/employers/e.on-uk/case-studies/297/>

[http://www.fdf.ac.uk/home/information\\_for\\_employers/employer\\_based\\_training\\_accreditation\\_ebta/](http://www.fdf.ac.uk/home/information_for_employers/employer_based_training_accreditation_ebta/)

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