campaign for learning

Driving-up employer investment in training

Pressing the right buttons

March 2023

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Introduction

Give me growth

The cost-of-living crisis continues to reduce short-term economic growth in the UK.

According to the Bank of England, the UK economy is forecast to contract by -0.5% in 2023 and by -0.25% in 2024, before growing by only +0.25% in 2025 (see Table 1). Although a deep and protracted recession seems to have been avoided, the outlook for growth is weak and precarious.

At the time of the 2023 Spring Budget, the Office for Budget Responsibility (OBR) is also expected to confirm that the UK economy will contract by less than it forecast last November, although the outlook for growth in 2024 and 2025 is likely to be much weaker.

Table 1: Growth Forecasts

UK GDP							
	Average			**Projection**			
	1998-2007	2010-19	2020-21	2022	2023	2024	2025
Monetary Policy Report BoE, February 2023	+2.75%	+2.0%	-1.75%	+4.0%	-0.5%	-0.25%	+0.25%
Economic & Fiscal Outlook OBR, November 2022				+4.2%	-1.4%	+1.3%	+2.6%

A measure of the constraints to short-term growth is the potential supply of the economy. This is the level of output the economy can sustain without overheating and generating excess inflationary pressure. In the long-term, the potential supply growth represents where gross domestic product (GDP) growth is expected to settle after the economy has fully adjusted to business cycle shocks.

The Bank of England estimates that potential supply growth of the economy has fallen from 2.7% between 1997 and 2007, to 1.7% between 2010 and 2019. Between 2023 and 2025, average potential growth is estimated to be a mere 1% (see Box 1).

Concerns, however, are not just limited to short-term economic growth. Long-term growth rates have steadily declined. According to the Bank of England, between 1998 and 2007 - before the 2008 financial crash - growth averaged 2.75%. During 2010 and 2019, average growth fell to 2.0%.

Box 1: Potential Supply

Table 3.A: Decomposition of estimated potential supply growth (a)

	Average			Projection			
	1997–2007	2010–19	2020–21	2022	2023	2024	2025
Potential supply growth (per cent)	**2.7**	**1.7**	**-2.1**	**3.1**	**1.3**	**0.7**	**0.7**
of which, potential labour supply growth	0.7	1.1	-1.6	2.5	0.3	0.2	0.1
of which, potential productivity growth	2.0	0.5	-0.5	0.6	1.0	0.5	0.6

Sources: ONS and Bank calculations.

(a) Annual average growth rates. Percentage point contributions unless otherwise stated. Contributions may not sum to the total due to rounding. Data for 2022 onwards are projections consistent with the MPC's forecast.

Source: Monetary Policy Report, MPC, Bank of England, February 2023

A key question is whether the UK can ever return to 2.0% average growth in the aftermath of Covid-19, whilst also facing the long-term consequences of Brexit, the continued impact of the cost-of-living crisis caused by the Russian invasion of Ukraine, and an increasingly ageing population (which every industrialised nation is grappling with).

Government plans for growth

Five priorities

On Wednesday, 4th January 2023, the Prime Minister set out his five priorities for the Government:

- halving inflation – halving inflation this year
- economy growing – creating better paid jobs
- debt falling – reducing national debt
- waiting lists – cutting NHS waiting lists
- small boats – passing news laws to stop small boats.

The four 'Es' for long-term economic growth

Three weeks later, on Friday, 27th January 2023, the Chancellor set out a plan for increasing long-term economic growth. The plan has four pillars – the so-called four Es:

- Enterprise
- Employment
- Education
- Everywhere

Growth through innovation

On Tuesday, 8th February 2023, the Prime Minister announced large scale machinery of government changes. Three new departments were announced: the Department for Science, Innovation and Technology (DSIT), Department for Business and Trade (DBT), and Department for Energy Security and Net Zero (DESNZ) (see Box 2). A fourth, the Department for Culture, Media and Sport, would be reformed.

Box 2: Department for Energy Security and New Zero

The Department for Energy Security and Net Zero will focus on giving the UK cheaper, cleaner, more secure sources of energy – cutting bills, cutting emissions, and cutting our dependence on international energy supplies, like those of Putin's Russia.

The Department for Science, Innovation and Technology will make sure the UK is the country where the next great scientific discoveries are made – and where the brightest minds and the most ambitious entrepreneurs will turn those ideas into companies, products, and services that can change the world.

The Department for Business and Trade will be a single, coherent voice for business inside government, focused on growing the economy with better regulation, new trade deals abroad, and a renewed culture of enterprise at home.

And we will streamline and re-focus the Department for Culture, Media and Sport to support and celebrate the immeasurable richness those sectors bring to our national life.

Source: https://www.gov.uk/government/publications/making-government-deliver-for-the-british-people/making-government-deliver-for-the-british-people-html

The aim of these changes to the machinery of government is to turn Britain into a scientific superpower – innovation will drive the growth of the economy over the next decade (The Times, 8th February 2023).

Spring Budget – 15th March 2023

The Chancellor has consistently ruled out a large fiscal stimulus to boost the short-term growth of the economy. Faster revenues and higher falls in energy prices than previously forecast have delivered to the Chancellor an unexpected £30bn windfall. Even so, significant tax cuts and public spending rises seem unlikely.

The argument against significant fiscal loosening is that the Bank of England must not be given a reason to raise interest rates above their projected peak of 4.5%, now that they have reached 4.0%. Supply chain and labour market constraints continue. A further increase in aggregate demand could lead to continuing price rises and a longer period before inflation falls to 5% than the end of 2023.

Growth to fund skills, skills investment to deliver growth

In fact, the Government is in a conundrum. One argument is that economic growth must occur first, in order to generate extra revenue to subsequently fund tax cuts or make additional public spending on skills. A counter argument is that tax cuts and additional public spending for skills are required to boost economic growth.

Given the current state of the UK economy and the need to restrict interest rates to a maximum of 4.5%, it seems Treasury thinking is that growth needs to return before significant extra investment in skills can take place.

Political and Economic Context

There have been significant political and economic changes in the UK which provide the backdrop to employer expenditure on training: Brexit and a new immigration policy, the Covid-19 pandemic, and the cost-of-living crisis caused by the Russia-Ukraine war.

UK immigration policy

On 23rd June 2016, the UK voted to leave the European Union. On 31st January 2020, the UK formally left the European Union. The Brexit transition period ended on 31st December 2020. As such, on the 1st January 2021, the free movement of people – including workers – between the UK and European Union ended.

A tighter immigration policy – especially with respect to migrant workers – naturally raises the question of employers investing in training to develop their own workforce and government policy developing the resident working population more generally. And yet, the key point is that restrictions on recruiting migrant labour have been in operation since 1st January 2021

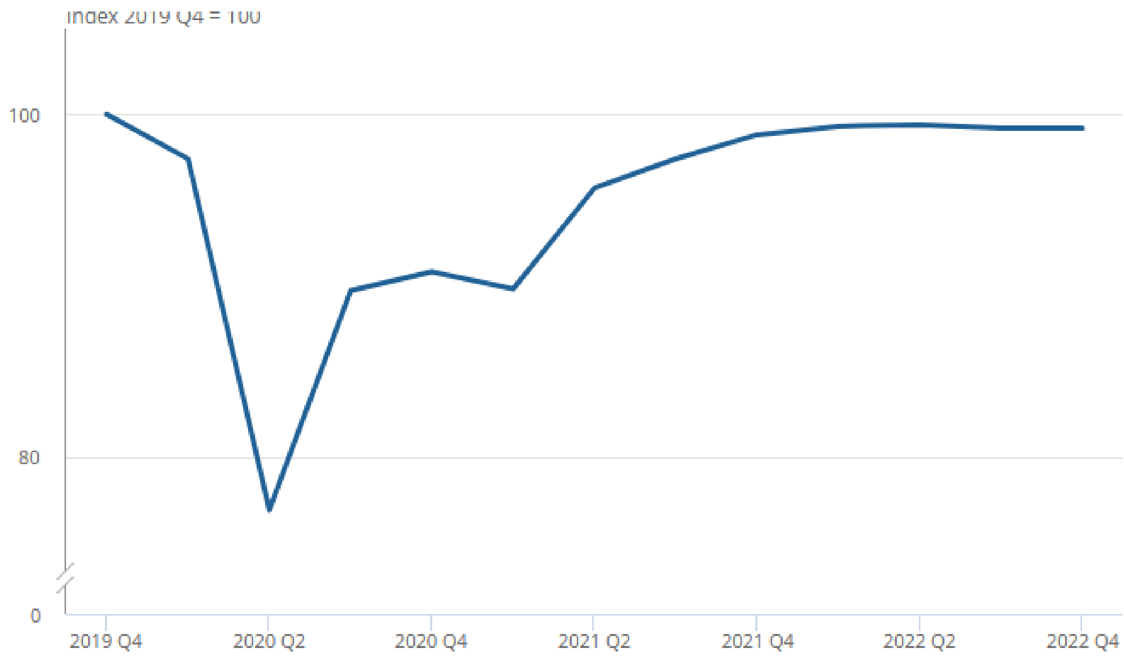
Covid-19

The first national lockdown to tackle the Covid-19 pandemic started on 26th March 2020. A second national lockdown came into force on 5th November 2020, and a third between January and March 2021. By July 2021, England was out of the final lockdown. The economy contracted sharply in the second quarter of 2020 and has yet to recover to pre-pandemic levels of output (see Box 3).

Box 3

Figure 1: Real GDP is estimated to have been broadly flat in Quarter 4 (Oct to Dec) 2022

UK, Quarter 4 (Oct to Dec) 2019 to Quarter 4 2022



Source: ONS https://www.ons.gov.uk/economy/grossdomesticproductgdp/bulletins/gdpfirstquarterlyestimateuk/octobertodecember2022

Cost of Living Crisis

On 24th February 2022, Russia invaded Ukraine. The war has caused a worldwide rise in inflation and a cost-of-living crisis at home. Inflation has risen to over 10%.

The UK is adopting tighter monetary and fiscal policies to bring inflation down to 2%. The economy is not expected to grow by much in 2023.

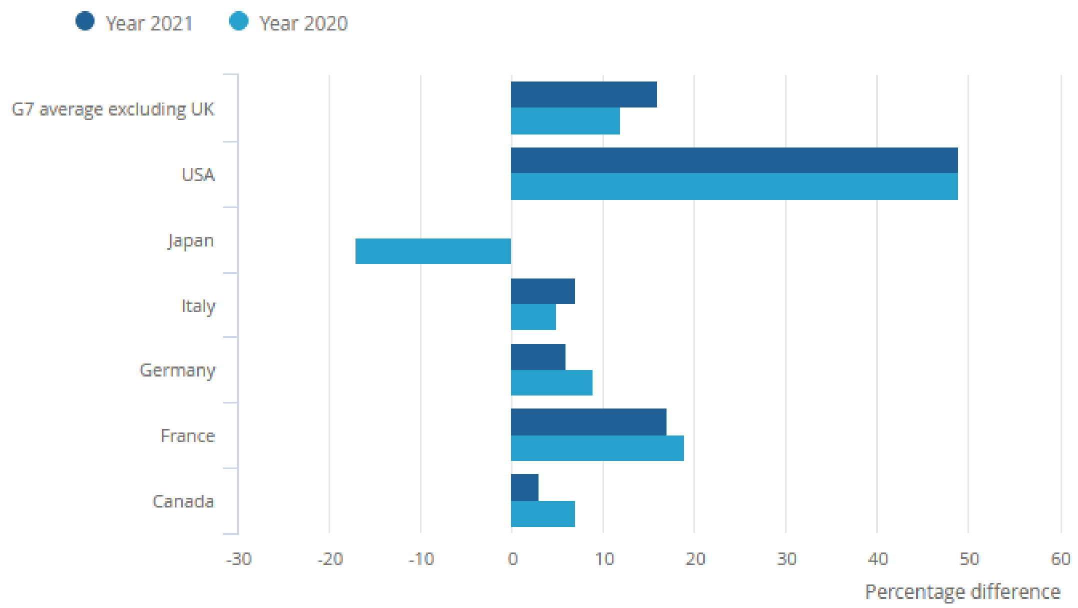
The long-term productivity challenge

Against the backdrop of Brexit, Covid-19 and the cost-of-living crisis, the UK faces the long-term challenge of increasing productivity. Output per worker between 2020 and 2021 was lower than most G7 countries (see Box 4). Germany, France and Canada have had higher average productivity over time measured by output per hour than the UK (see Box 5).

Box 4

Figure 1: The UK's output per worker was lower than five G7 nations in 2020 and lower than Canada, France, Germany, Italy and the US in 2021.

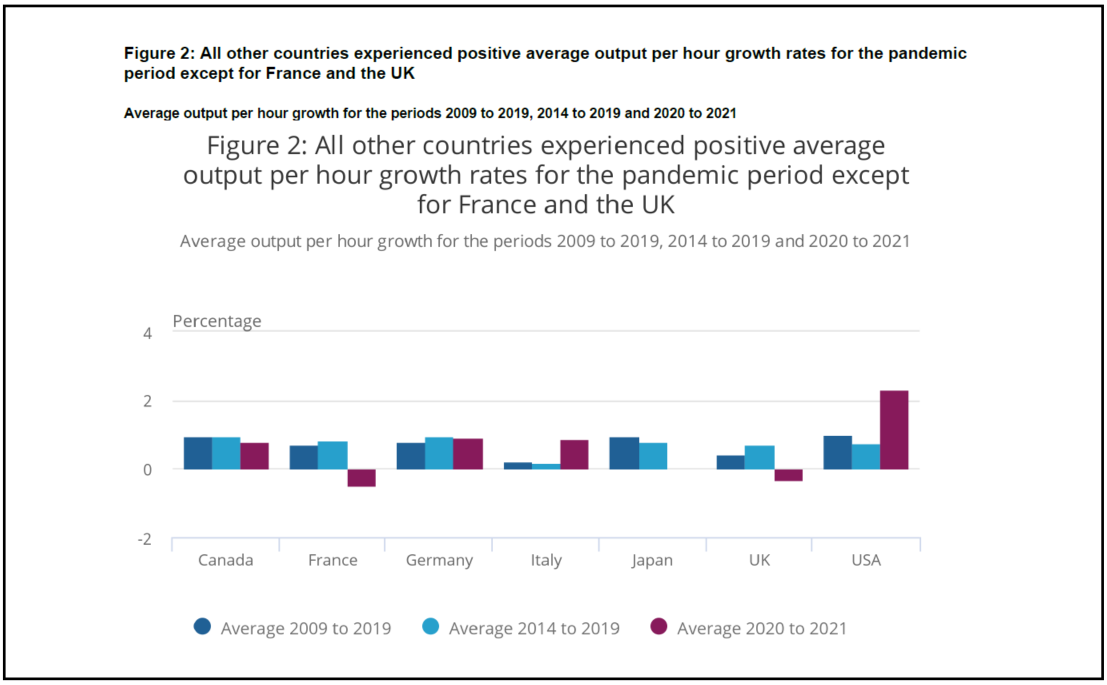
Output per worker relative to the UK, 2020 and 2021



Source: Organisation for Economic Co-operation Development (OECD), Office for National Statistics calculation

Source: ONS https://www.ons.gov.uk/economy/economicoutputandproductivity/ productivitymeasures/bulletins/ internationalcomparisonsofproductivityfinalestimates/2021

Box 5



Source: ONS https://www.ons.gov.uk/economy/economicoutputandproductivity/productivitymeasures/bulletins/internationalcomparisonsofproductivityfinalestimates/2021

Increasing productivity is critical to raising real wages and company profits. Productivity can be raised through increasing investment in physical capital, human capital and new technology.

Defining investment

Official statistics split spending between resource expenditure and capital expenditure. The term investment is commonly used for capital expenditure.

Capital expenditure

There are three sources of capital expenditure: government, employers and households. Categories which count as capital expenditure include physical assets – such as machinery and buildings – research and development, and intellectual property.

Total capital expenditure is termed Gross Fixed Capital Formation (GFCF). Business investment is just one element of GFCF. Gross Fixed Capital Formation excludes capital expenditure by households, and central and local government.

Capital expenditure on physical assets in education and training

Only spending on physical assets linked to education and training – such as provider buildings and equipment – is classified as capital expenditure and treated as investment. In short, total spending on human capital – a key contributor to labour productivity – is treated differently compared to physical capital and official estimates of investment.

Investment in post-16 education and skills

By contrast, it is common to hear the word investment from the post-16 sector when calling for extra spending, with the implication that extra spending is not limited to buildings and equipment but resource expenditure too. And in terms of employers, the post-16 sector often calls for them to view training as an investment and not a cost.

A review of employer investment in training

Indeed, the Treasury itself talks in terms of employer investment in training. As part of Spring Statement 2022, the Treasury announced a review of private sector employer investment in training (see Box 6). Perhaps details of what the Government might have in mind will emerge in the 2023 Spring Budget.

Box 6: Spring Statement 2022

4.39 The government's ambition is to encourage greater levels of private sector investment in employee training, both for apprentices and for employees more generally. The UK corporation tax system already allows companies to deduct any costs of staff training fully from taxable profits, where this is relevant to their business. However, even though the UK tax system provides the same level of reward as in most other countries, the amount UK companies spend on training their employees remains relatively low.

4.40 The government will consider whether further intervention is needed to encourage employers to offer the high-quality employee training the UK needs. This will include examining whether the current tax system – including the operation of the Apprenticeship Levy – is doing enough to incentivise businesses to invest in the right kinds of training.

Source: https://www.gov.uk/government/publications/spring-statement-2022-documents

Investment in capital, expenditure on training

To avoid confusion, one way forward is to use the terms 'employer investment in capital' and 'employer expenditure on training'.

Employer expenditure on training

Employer expenditure on training can be divided into two parts: expenditure on general training provision and expenditure on apprenticeships.

Employer expenditure on general training provision in the UK

According to the Employer Skills Survey, employers in England, Wales and Northern Ireland spent £42bn on general training provision in 2019 (see Box 7). If spending by employers in Scotland is added, employers across the UK spent in the region of £45bn on training.

This is a large number. Employer expenditure on training in 2019 of c£45bn was equivalent to 2% of GDP. It was also greater than the MoD budget (£40bn) in 2019/20.

The next Employer Skills Survey will examine employer funded training in 2022. Fieldwork was undertaken between May and December. The report will be published on 30th March 2023.

Employer expenditure on general training provision in England

In 2019, employers in England spent £39.2bn on general training provision (see Box 8). This was equivalent to 1.8% of GDP.

Employer expenditure on apprenticeships in England

In 2019/20, DfE funding on apprenticeships in 2019 – including top-ups, support costs and incentives – was £1.9bn funded through the UK Apprenticeship Levy. Employers, especially levy payers, say funding for apprenticeships is their money. Government says it is theirs, because apprenticeship funding is actually public spending.

Less controversial is the fact that employers – private, public and voluntary – pay the wage costs of apprentices.

Box 7

Table 5-2 Total training expenditure broken down by individual components (2011 to 2019), in 2019 prices

	2015		2017		2019	
Unweighted Base:	*11,549*		*11, 059*		*10,255*	
	£	%	£	%	£	%
Total training expenditure	*42.0bn*	100	*42.2bn*	100	*42.0bn*	100
Off-the-job training: total	*23.0bn*	55	*23.2bn*	55	*20.9bn*	50
Off-the-job training: Course-related: total	*19.9bn*	47	*19.9bn*	47	*17.5bn*	42
Trainee labour costs	*5.1bn*	12	*4.9bn*	12	*4.9bn*	12
Fees to external providers	*2.2bn*	5	*2.4bn*	6	*2.7bn*	7
On-site training centre	*3.6bn*	9	*3.3bn*	8	*2.0bn*	5
Off-site training centre (in the same company)	*0.7bn*	2	*0.7bn*	2	*0.6bn*	1
Training management	*7.7bn*	18	*7.9bn*	19	*6.6bn*	16
Non-training centre equipment and materials	*0.4bn*	1	*0.4bn*	1	*0.3bn*	1
Travel and subsistence	*0.4bn*	1	*0.4bn*	1	*0.4bn*	1
Levies minus grants	*-0.2bn*	-*	*-0.2bn*	-*	*-0.05bn*	-*
Off-the-job training: other (seminars, workshops etc.): total	*3.1bn*	7	*3.3bn*	8	*3.4bn*	8
Trainee labour costs	*2.2bn*	5	*2.3bn*	6	*2.4bn*	6
Fees to external providers	*0.8bn*	2	*0.9bn*	2	*0.9bn*	2
On-the-job training: total	*19.0bn*	45	*19.0bn*	45	*21.1bn*	50
Trainee labour costs	*11.7bn*	28	*11.9bn*	28	*13.4bn*	32
Trainers' labour costs	*7.3bn*	17	*7.1bn*	17	*7.8bn*	18

Source: ESS 2019 – Research Report, GSR, DfE, November 2020

Box 8

Table 5-1 Total training expenditure and spend per trainee and per employee (2011 to 2019), in 2019 prices

	2015			2017			2019		
	Total	Per trainee	Per employee	Total	Per trainee	Per employee	Total	Per trainee	Per employee
	£	£	£	£	£	£	£	£	£
Total	42.0bn	2.6k	1.7k	42.2bn	2.6k	1.6k	42.0bn	2.5k	1.5k
Country									
England	38.9bn	2.6k	1.7k	39.1bn	2.6k	1.6k	39.2bn	2.6k	1.5k
Northern Ireland	1.0bn	2.1k	1.3k	1.1bn	2.4k	1.5k	1.1bn	2.2k	1.4k
Wales	2.1bn	2.8k	1.8k	2.1bn	2.9k	1.7k	1.7bn	2.1k	1.4k
Size									
2 to 4	5.7bn	6.1k	2.6k	5.9bn	5.7k	2.4k	5.2bn	5.5k	2.0k
5 to 24	12.9bn	3.8k	2.1k	13.3bn	3.8k	2.1k	12.5bn	3.6k	1.9k
25 to 49	5.8bn	2.8k	1.8k	6.4bn	3.1k	2.0k	6.0bn	2.9k	1.8k
50 to 99	5.9bn	2.8k	1.8k	5.0bn	2.3k	1.5k	5.7bn	2.5k	1.7k
100+	11.7bn	1.6k	1.1k	11.6bn	1.5k	1.0k	12.6bn	1.6k	1.1k
Sector									
Primary Sector & Utilities	1.1bn	3.8k	1.8k	1.0bn	3.0k	1.5k	0.9bn	2.5k	1.3k
Manufacturing	2.6bn	2.4k	1.2k	2.8bn	2.6k	1.3k	2.7bn	2.5k	1.2k
Construction	2.2bn	4.1k	2.1k	2.6bn	4.8k	2.4k	2.6bn	4.4k	2.1k
Wholesale & Retail	4.7bn	2.1k	1.1k	6.1bn	2.5k	1.5k	4.6bn	2.1k	1.1k
Hotels & Restaurants	2.9bn	2.6k	1.7k	3.0bn	2.5k	1.5k	2.7bn	2.1k	1.3k
Transport & Storage	1.3bn	2.1k	1.2k	1.4bn	2.3k	1.2k	1.4bn	2.1k	1.1k
Information & Comms	1.8bn	3.4k	1.8k	1.4bn	2.7k	1.5k	1.6bn	2.8k	1.5k
Financial Services	1.5bn	2.4k	1.7k	1.3bn	1.9k	1.4k	1.3bn	2.2k	1.5k
Business Services	9.3bn	3.5k	2.1k	9.4bn	3.2k	1.9k	11.4bn	3.8k	2.2k
Public Admin	1.8bn	2.0k	1.5k	1.9bn	2.9k	1.7k	1.7bn	2.1k	1.5k
Education	4.2bn	2.3k	1.7k	3.7bn	2.0k	1.5k	3.5bn	1.9k	1.4k
Health & Social Work	5.8bn	2.2k	1.7k	5.3bn	1.9k	1.5k	5.9bn	2.1k	1.6k
Arts & Other Services	2.6bn	3.7k	2.2k	2.2bn	3.0k	1.8k	1.7bn	2.4k	1.4k

Base: Establishments completing the Investment in Training study excluding Scotland (UK 2011: 10,345; 2013: 11,093; 2015: 11,549; 2017: 11,059; 2019: 10,255). Spends per trainee and employee to the nearest 10. See Table A.5.3 in Appendix A for base sizes

Source: ESS 2019 – Research Report, GSR, DfE, November 2020

There were 719,000 people participating in apprenticeships in the academic year 2019/20. The median average weekly wage for Level 2 and 3 apprentices in 2018/19 was £271 and 58.7% were retained on apprenticeships. A cautious estimate of the wage bill paid to apprentices by employers in 2019/20 is c£5.9bn.

Overall, therefore, total employer expenditure on apprenticeships in England in 2019/20 – including provision costs and wage costs – was c£7.8bn.

Estimated total employer expenditure on training in England

In 2019/20, employers in England potentially spent £47bn on general training and apprenticeship training, including the cost of provision and wages. This is equivalent to 2.1% of UK GDP.

Key issues

The pamphlet seeks to discuss a series of key issues regarding:

- employer spending on general training provision
- employer spending on apprenticeships
- employer engagement in publicly funded post-16 education
- employer involvement in work placements.

Employer investment in capital and expenditure on training

The pamphlet looks at employer investment in capital and employer expenditure on training in the round. Policy makers in post-16 education and skills need to reflect on whether the UK is poor at employer training but good at investment in physical capital, R&D and innovation capital relative to other countries or just poor at the lot.

Wider structural barriers preventing employer spending on training

The pamphlet also considers whether there are wider structural features of the UK economy which are holding back employer expenditure on training and encouraging them to recruit skilled workers from the external labour market. Two are discussed specifically:

- net worker migration, and
- the flexible labour market.

Net worker migration

Employer investment in training must be assessed in the context of net worker into the UK. Net worker migration is running at 200,000 per year since the introduction of the new points-based immigration system on 1st January 2021.

The flexible labour market

At the same time, consideration must be given to the impact of the flexible labour market on decisions by employers to invest in training. There are between 7m-8m job starts a year in the labour market, equivalent to 20-25% of the workforce. In addition, around 20% of the workforce are self-employed, in jobs with low or zero-hour contracts or in temporary jobs.

Principle of derived demand

The pamphlet also revisits the principle of **derived demand**.

The dominant view of 'skills and growth' policy is the need to ensure there is an adequate supply of skilled workers which employers access by training their own staff or recruit from the external labour market. The role of management is to utilise the skills of their employees to boost productivity and service delivery.

An alternative view is that decisions by management to grow a business, develop new products and services, and invest in capital and R&D drives-up employer demand for skills. This is the principle of derived demand. Today, the transition to net zero could be added to the drivers of employer demand for skills (see Mission Zero – Independent Review of Net Zero, January 2023). Derived demand was widely debated between 1997 and 2010 but gradually disappeared from the policy debate and collective memory.

Of course, when business development drives-up employer demand for skills, employers can meet those demands:

- through their own expenditure in training;
- engagement in publicly funded post-16 education and training and
- recruiting from the external labour market (which might always be viewed as easier).

The productivity problem and employer spending on training

Increased productivity leads to individuals receiving higher wages and companies making higher profits. Raising spending on human capital can contribute to rising productivity. Extra spending on human capital can be made by the state, individuals and employers, with fiscal incentives supporting investment by employers and individuals.

From the perspective of employer expenditure on training, a key issue is the extent to which the £39.2bn employers spent on general training increases productivity compared, say, to the c£7.8bn they might spend on apprenticeships (including training and wage costs).

The Pamphlet

Campaign for Learning wishes to thank the 22 authors who have contributed to **'Driving-up employer investment in training – pressing the right buttons'**. We hope readers will find the different perspectives stimulating and thought provoking. The pamphlet is concluded with a series of key messages and recommendations by the Campaign for Learning.

Scope

Self-employment

This pamphlet recognises that employers are not generally responsible for the training of self-employed workers. It does not however, explicitly examine policies to increase training by sole traders including the critical issue of the loss of earning during training days.

Devolution in the UK

Throughout the pamphlet, references are made to the UK and England. From a policy perspective, however, ideas to increase employer spending on training in general and post-16 education and skills in particular refer to England.

Julia Wright and Mark Corney, Campaign for Learning

Part One
Employer investment in context

Louise Murphy, Economist, Resolution Foundation

Investment in the round

The UK is in a period of stagnation, with our economy defined by the toxic combination of low productivity growth and high inequality. Years of underinvestment is one of the things contributing to the UK's productivity slowdown.

If the UK is to escape this trend and become a richer, more productive and less unequal nation, we must reverse this trend and make the 2020s a high-investment decade.

We have explored these issues in more detail in the interim report for the Economy 2030 Inquiry – 'Stagnation Nation' – a collaboration between the Resolution Foundation and the Centre for Economic Performance at the London School of Economics, funded by the Nuffield Foundation.

The UK is in a period of stagnation

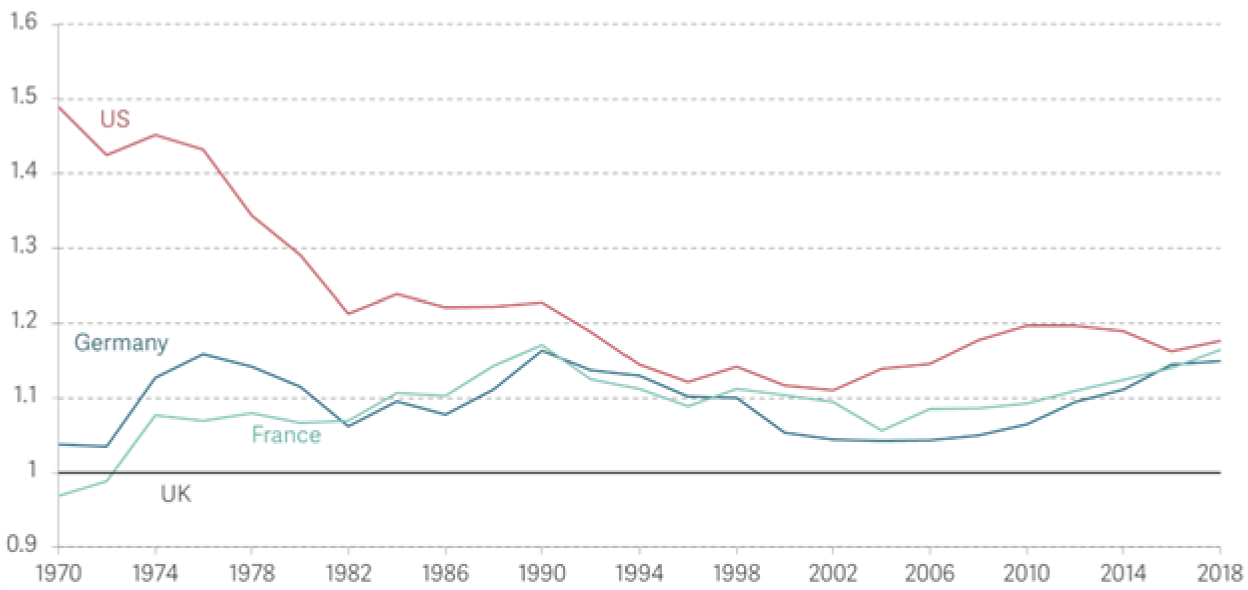
The UK economy has been declining since the financial crisis. This has real impacts for people and businesses up and down the country. For example, labour productivity grew by just 0.4% a year in the UK in the 12 years following the financial crisis – half the rate of the 25 richest OECD countries, which saw growth of 0.9%.

In Figure 1, we compare the UK to some countries we tend to think of as similar (the US, France and Germany). We see that while productivity in the UK was similar to France and Germany at the turn of the century, the UK's relative performance has been declining since the mid-2000s.

This weak productivity growth has real implications for people's wages; while real wages grew by an average of 33% a decade from 1970 to 2007, this fell to below zero in the 2010s. This meant that by 2018, typical household incomes were 16% lower in the UK than in Germany and 9% lower than in France, having been higher in 2007.

Figure 1: UK productivity has fallen further behind France, Germany and the US since the early 2000s

Ratio of GDP per hour worked compared to the UK, current Purchasing power parity (PPP)



(Notes: Data shown is two-year rolling averages. Purchasing power parity (PPP) is used to compare labour productivity between countries. PPP is a theoretical exchange rate in which you can buy the same amount of goods and services in every country. These data are current PPP rather than constant prices measured in a base year. Current PPP is the correct measure when comparing relative levels. See Feenstra, R et al., The Next Generation of the Penn World Table, American Economic Review, 105(10), 3150-3182, 2015. Source: Analysis of OECD, Level of GDP per capita and productivity dataset).

Whole economy Investment in the UK has been persistently low

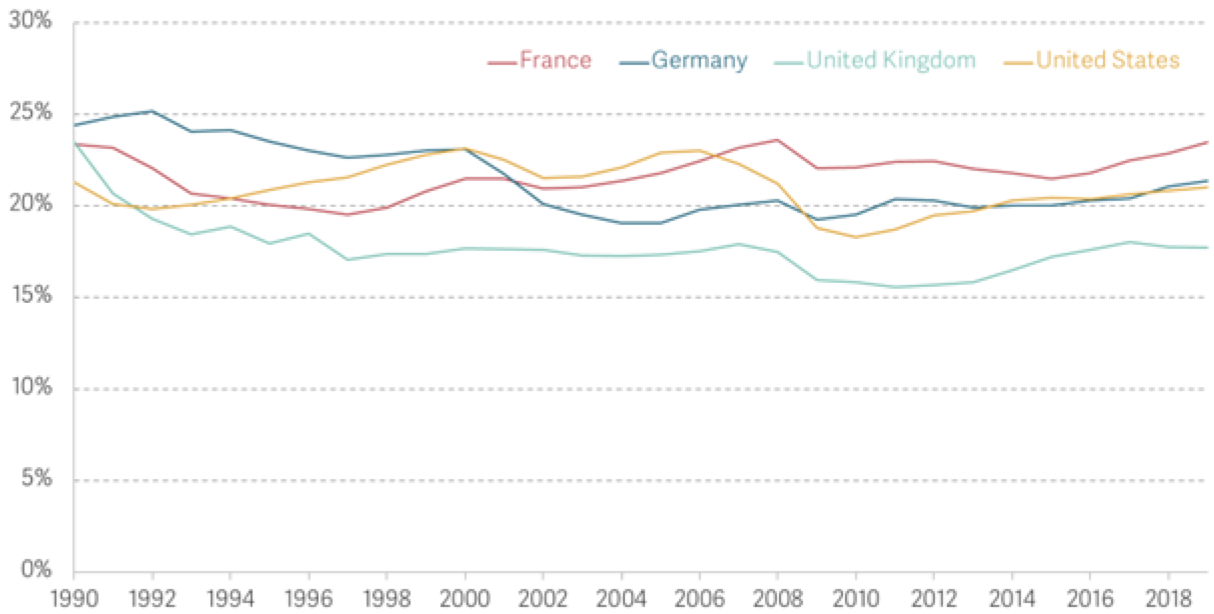
Although recent shocks such as Brexit and the Covid-19 pandemic have affected capital investment, the UK's performance has been poor for many decades.

Whole economy investment – or Gross Fixed Capital Formation (GFCF) - includes public and private sector investment, and encompasses investment in fixed assets such as buildings, machinery, Information and Communication Technology (ICT) and Research and Development (R&D). Public and private sector investment across all of these areas is important for raising productivity and reducing inequality.

Figure 2 shows Gross Fixed Capital Formation as a share of GDP, in the UK, the US, France and Germany. On this measure, not only has the UK been investing less than its peers as a share of GDP since the early 1990s, but investment in the UK has been falling since 2017 while rising in these other countries.

Figure 2: Investment in the UK lags behind the US, France and Germany

Whole-economy investment as a share of GDP



(Notes: Gross fixed capital formation (GFCF) as a share of GDP. Ratio of series in current PPP USD.)

Source: Analysis of OECD data.

UK performance in business investment is particularly poor

Both public and private sector investment matter for productivity. However, when looking ahead, the private sector is where the big challenge lies. After decades of underinvestment, the public sector has started to turn the corner, with public sector net investment at its highest sustained levels since the 1970s. On the other hand, private sector business investment remains poor; in the UK it was only 10% of GDP in 2019, far behind the average of 13% in France, Germany and the USA.

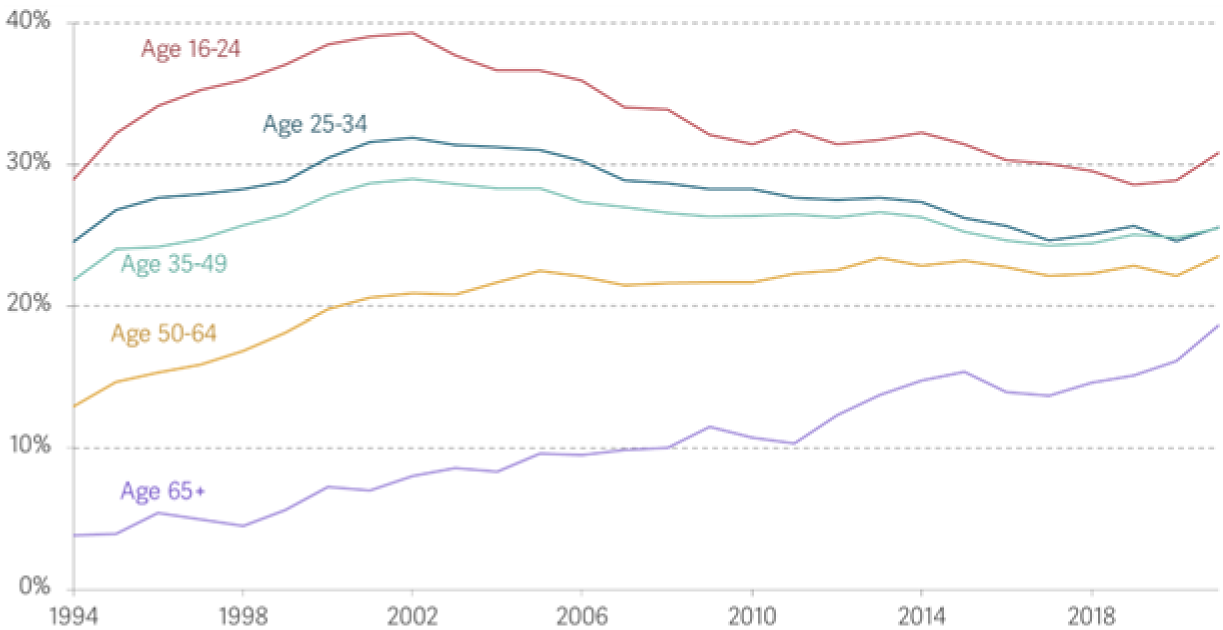
Investment in human capital is also needed

Alongside increasing investment in capital and ideas, the UK must increase its investment in human capital, where progress has slowed and outcomes are very unequal. This is true when we look at outcomes for young people leaving school; in the UK, the gap in numeracy skills between 16-20-year-olds who do not have a parent that attained an upper-secondary qualification (A Level equivalent) and those that did is the third largest in the OECD.

But we should not just focus on schools and colleges – there has also been a slowdown in workplace training, with the proportion of workers who report that they have received work-related training in the past three months falling from 29% in 2002 to 24% in 2020. Concerningly, this slowdown in workplace training has been most pronounced among younger workers. Between 2002 and 2020, those aged 16-24 saw their training rate fall by over a quarter (by 27%, falling from 39% to 29%), as shown in Figure 3. This fall in training amongst young workers has happened across occupations and is not the result of young workers becoming more represented in jobs that are less likely to provide training.

Figure 3: The fall in workplace training is concentrated among the youngest workers

Proportion of those in employment receiving work-related training in the past three months, by age group: UK



Source: Analysis of ONS, Labour Force Survey

Recommendation 1

Policy makers need to be serious about boosting productivity growth in the 2020s to improve living standards for low-and-middle income households across the UK.

Recommendation 2

There needs to be an increase in capital investment, particularly in the private sector, to close the gap between the UK and countries such as France, Germany and the US.

Recommendation 3

There needs to be greater investment in human capital to both improve outcomes for workers and boost productivity in the UK.

Dr Vicki Belt, Deputy Director, Enterprise Research Centre, Warwick Business School

UK enterprises and investment in capital and training

The UK enterprise population

It is often said that small and medium-sized enterprises, or SMEs, are the backbone of the UK economy. According to the latest available data, in 2022 there were 5.5 million private sector businesses in the UK.

Nearly all of these businesses – 99.9 per cent – were SMEs (employing 0-250 people). The vast majority of these (5.47 million) were small businesses (with 0 to 49 employees), who made up 99.2% of the total business population. A substantial proportion (5.2 million) were microbusinesses (employing 0-9 people), accounting for 95% of all businesses.

Overall, SMEs accounted for 61% of private sector employment, and microbusinesses for 32%. Although large businesses made up just 0.1% of the business population, these firms accounted for 39% of employment. Notably, though, the UK private sector consists of more non-employing businesses than it does employing businesses; there were 4.1 million businesses with no employees in 2022.

The UK has a vibrant entrepreneurial culture. There were 4.2 million people in self-employment in the UK in 2022, accounting for 13% of total employment. Data from the UK Global Entrepreneurship Monitor (GEM) survey indicated that around 1 in 3 adults were either running a business or looking at starting one in 2022.

However, it is also true that many small businesses don't survive beyond the first few years. According to the ONS, the five-year survival rate for UK businesses born in 2016 stands at 38.4%. There is a high level of turbulence in the enterprise landscape, with just over a quarter of all jobs in the private sector either destroyed or created over a typical 12-month period (Hart and Prashar, 2019).

Business investment in the UK

Business investment in physical and human capital can bring productivity benefits and is important for firm survival and growth. However, there is evidence that the UK has a problem with low levels of business investment. The Bank of England has noted that UK business investment has been negatively affected by the Covid-19 crisis, as well as the decision leave the EU – both of which have created considerable uncertainty for business leaders (Bank of England, Quarterly Bulletin 2021 Q2, 25th June).

A recent paper by the Institute for Government notes that the UK's relatively poor performance has led to "suspicions that there are structural features of the UK economy, its business culture and its institutions, that lead to more short-termism and aversion to investment" (Wilkes, G., 2022, Institute for Government Report). These attitudes and behaviours are particularly apparent amongst smaller businesses, who also face more barriers accessing finance.

Business investment in research and development

In recent years, increasing attention has been paid to the importance of firms investing in intangible assets (including intellectual property, human capital and research and development R&D). According to (revised) ONS data, UK firms spent £46.9 billion on R&D in 2021.

However, the UK still lags far behind international leaders in this area. SMEs accounted for a substantial £23.3 billion of private sector investment, although R&D in smaller companies is often more informal in nature than in larger firms, and SMEs face more difficulties in financing their innovation activities (Roper and Love, 2013).

Research has shown that R&D investment tends to be pro-cyclical, rising in recovery and falling sharply during times of crisis, partly due to the financial constraints faced by firms. Roper and Turner (2020) found that the proportion of innovating firms in the UK fell by around a third during the great financial crisis. They note that the Covid-19 pandemic is likely to have similar effects, with the most significant impacts on the ability of SMEs to sustain their R&D and innovation activities.

Business investment in training

One of the most important investments a business can make is in the skills of its workforce. According to the most recent Employer Skills Survey (ESS), undertaken pre-pandemic, UK employers invested £42 billion in skills in 2019. However, the UK has seen a long-term decline in spending on training per employee in real terms by 28% between 2005 and 2018.

In the 2019 ESS, three-fifths (61%) of employers had funded or arranged training for any of their employees over the previous 12 months. This is slightly lower than the level found in earlier surveys (in 2011 to 2017) when two-thirds of employers (65%-66%) had provided training over the previous 12 months.

Concerns have been expressed about the quality and content of the training that is delivered within UK workplaces too, with the ESS series finding that most training is job specific and that substantial proportions focused on basic induction or health and safety training. Fewer than 20% of employers provided management training in 2019.

There are long-established patterns in terms of training by establishment size which show that training increases substantially as establishment size increases. The latest ESS findings show that less than half (46%) of employers with 2 to 4 employees provided training, compared with three-quarters (75%) of those with 5 to 24 employees, and almost all (92%) of those with 25 or more employees. The proportion of staff trained also increased as establishment size increased. Around one-third (36%) of staff in establishments with 2 to 4 employees received training, compared to two-thirds (67%) in establishments with 250 or more staff.

The overall picture that emerges from the data is that smaller employers are significantly less likely to provide training than larger ones, with investment in training falling most amongst small employers over time. Employer investment in training fell more sharply during the pandemic than it did in the financial crisis, indicating that the decline is likely to deepen looking forward.

Facing realities

Developing workforce skills is one of the most important investments that a business can make and will be essential for firms as they recover from the shock of the Covid-19 pandemic and economic downturn that has followed.

But addressing the long-term decline in investment in training in the UK is a real challenge that requires sustained intervention, and an appreciation of the realities of the context of the wider business and investment landscape.

Recommendation 1

Policymakers need to be sensitive to the realities of the UK's business landscape, which is dominated by SMEs, and particularly by small firms. An emphasis needs to be given to ensuring that the needs and constraints faced by SMEs are fully understood, and policy solutions should be targeted to them appropriately.

Recommendation 2

More work needs to be done to develop an innovative, long-term mindset amongst SME leaders. This will involve a combination of tailored business and financial support. Evidence from the great financial crisis suggests that firms that invest in innovation tend to have better survival chances, stronger growth, and higher profitability. Encouraging innovation is also likely to have positive knock-on effects in terms of investment in training.

Recommendation 3

There is a strong link between the management and leadership skills of business owners and business survival and performance – yet, only a minority of firms provide management training. Publicly funded management skills programmes should be made accessible to a wider set of businesses, including the smallest businesses and the self-employed. The design of these programmes should draw on the high quality evaluation evidence from existing programmes (such as the Help to Grow scheme) to ensure good practice is reflected.

Becci Newton, Director, Public Policy Research, Institute of Employment Studies

Employer investment in training in England

Over decades, a problematic trend in the UK has emerged – employers are failing to invest in training the workforce, despite technological change and the need to address climate change.

Employer investment has flat lined since 2015

Data from the Employer Skills Survey shows that overall investment in training by employers in England, Northern Ireland and Wales was flat in real terms between 2015 and 2019 (see Table 1). That was pre-pandemic – so it's likely that worse news is to follow in the next survey.

Table 1: Employer investment in training

	2015			2017			2019		
	Total spend	Per trainee	Per employee	Total spend	Per trainee	Per employ-ee	Total spend	Per trainee	Per employee
England	38.9bn	2.6k	1.7k	39.1bn	2.6k	1.6k	39.2bn	2.6k	1.5k
Northern Ireland	1.0bn	2.1k	1.3k	1.1bn	2.4k	1.5k	1.1bn	2.2k	1.4k
Wales	2.1bn	2.8k	1.8k	2.1bn	2.9k	1.7k	1.7bn	2.1k	1.4k
Overall	42.0bn	2.6k	1.7k	42.2bn	2.6k	1.6k	42.0bn	2.5k	1.5k

Source: Employer Skills Survey 2019, Research Report, November 2020
Note: Scotland is covered by the separate Scottish Employer Skills Survey; NESS 2019

In England, investment in training increased very modestly from £38.9bn in the 2015 survey to £39.2bn in the 2019 survey. But, whilst investment per trainee also remained remarkably stable between 2015 and 2019 at £2.6K, the spend on training per employee in England declined by £200 in real terms. In addition, the average number of training days per trainee in England fell from 6.8 in 2015 to 6.0 in 2019.

Perhaps a factor that helps explains these trends in England – a flatlining in spend per trainee, a modest declining trend in spend per employee and a fall in the number of training days per trainee – concerns the forms of training that are recorded by ESS. Analysis by IES finds that "training is often geared towards induction and health and safety".

Training spend per employee by employers has plummeted

Over a longer time scale, a recent report by the Learning and Work Institute estimates that training spend per employee by employers "plummeted by 28 per cent" between 2005 and 2019. The authors note that this level of investment lags substantially behind employers in Europe who invest twice as much per worker than in the UK.

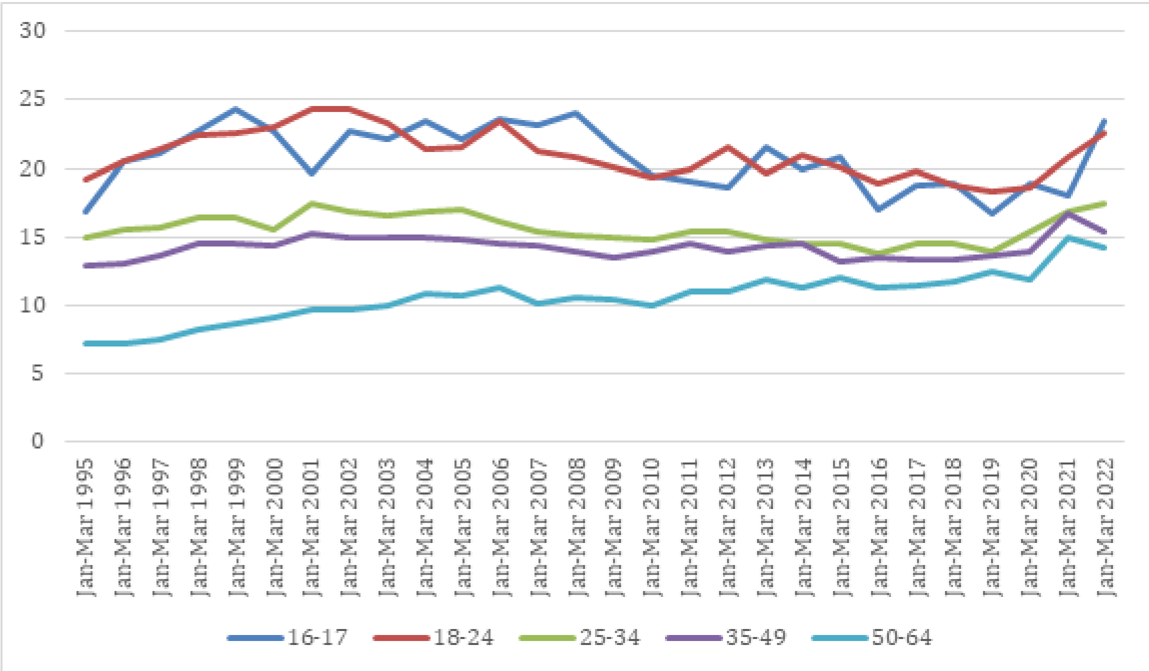
Declining participation in work-related training

Another study by CIPD tracks a significant decline in participation in work-related training, drawing on the Labour Force Survey (LFS). It shows that the rate of training in the first quarter of 2018 was about the same as it was in the same period in 1996 – around 14% of all employees aged 16 to 64. The latest LFS data shows this figure increased to 17% in the same quarter of 2021 and was stable at 17% in 2022 (see Figure 1). However, before congratulating employers on changing tack, it is worth considering that in this timeseries (since 1995) this rate has not been exceeded in any quarter-year.

Figure 1 also shows the rate of this training by age between 1995 and 2022 based on first-quarter data. While younger employees remain the most likely to receive training, the gap between them and middle-aged and older workers has narrowed substantially over time.

It is a positive sign that older employers are being invested in, albeit they experience the basic level of training necessary to work. However, the downturn for those aged between 35 and 49 should be a cause for concern, given the policy drive that this group should work to a minimum of 67 years of age.

Figure 1: Participation in work-related training in the past four weeks by age



Source: Labour Force Survey (EMP15)

A more positive view would be presented by a narrowing of the gaps, but with each age group seeing an increasing trend for occupational training – which is far from the case. Younger workers are seeing a return to the levels of training they saw before the great recession, but there appears a risk that training among middle-aged and older workers is stagnating.

A change is needed

It is unarguable that change is needed. In parallel to encouraging and supporting people to enter the labour market, which requires making work more accessible, there is a need to consider the role for government investment to drive employer investment in rates of work-related training.

The picture is not great. Over many years, governments have sought to influence employers' investment, putting the funding into areas which hold individuals back from effective performance such as fundamental basic skill levels.

The key directions have been to:

- remediate so that employers do not have to invest in the basics that compulsory education should provide;

- raise achievement in education and encourage progression to higher levels of study to improve the pipeline of skills employers have access to, and

- redefine so that employers define occupational training standards to meet their needs

There is little to argue with, though it could be said that these policy endeavours have led to a continual process of remodelling – new initiatives are implemented to respond to the failures of past ones. While aiming to raise the 'water table' of skills, evidence of increasing employer engagement in training is hard to find and instead, displacement emerges.

A classic example of this was when Train to Gain closed and apprenticeship numbers soared as the new funded provision, although they were not necessarily focused on those needing new skills to perform their jobs. Similarly, the introduction of the Apprenticeship Levy led employers to take up degree apprenticeships for higher education qualifications that they previously funded.

As greater value is placed on "problem solving/decision making, critical thinking/analysis, communication, collaboration, creativity and innovation" as the transferable skills most needed over the next 15 years (NFER, 2022), lifelong work-related learning becomes ever more important.

With the plethora of funding schemes and training initiatives, new support to improve navigation of the system is needed, as well as provision suitable for adult re/upskilling.

Recommendation 1

Levy and non-levy payers should have greater flexibility over use the Apprenticeship Levy, so that unused funds support wider forms of training rather than just apprenticeships; and employers can deploy the levy to fund the provision that best suits their employees' needs.

Recommendation 2

The Government should develop short courses or modular formats that offer employers the chance to fill skills gaps within their workforce. More must be done to encourage employers to directly place their employees on Skills Bootcamps but provision should be at Level 2 (beyond construction and green skills) as well as elements from Level 3 and up to Level 7 where the latter meets employer needs.

Recommendation 3

The Government should introduce a new place-based employment and skills brand to connect employers, employees and labour market entrants to the best training options for their needs.

Part Two
Drivers of employer investment in training

Neil Carberry, Chief Executive, Recruitment and Employment Confederation

Derived demand, British management and employer investment in training

> "Skills are a derived demand: employers' skills needs are a consequence both of their product strategy and the firm's characteristics. Management is a key determinant of an employer's product or service strategy and whether skills are used effectively."

Lord Leitch made this point over 15 years ago in his review of skills, Prosperity for all in the global economy – world class skills (2006). Yet, it remains the heart of our issue with skills in England. Skills demand is driven by things which managers decide based on the rational interest of the firm, whatever providers, Secretaries of State, or regulators say. You can't force a firm to train – they need to decide to.

The biggest issue in workplace skills policy

So, the biggest single question in English workplace skills policy is how we make sure the right decisions are being made. How do we avoid imposing a system that does not persuade managers to play? And how do we give them the skills to see the value – to them and their firm – if they do?

We need to change the debate for managers themselves

At a CBI event, a French CEO of a utilities firm said, "the issue is that in everything you do here, you teach managers to run the finances of the company – not its performance." Her point was specific – it was a challenge to the management education that took place in British business schools, and how it focuses on the short-term and the financial over the long-term and the sustainable.

But it is a point that translates. How we train managers, what we incentivise them to do, and the promotion pathways that we develop all are relevant.

Across British business, there has been a residual risk that short-term delivery – essential to any business, of course – has obscured long-term returns. It was no surprise that the initial work of the Government-funded 'Be the Business' group identified people issues – management, skills utilisation and more – as a key driver of low productivity.

A counsel of hope, not despair, is necessary

British businesses do invest in training. The challenge is how they do it, and for what aim. Look at Eurostat data on training and UKCES data on employer spending to prove it. Indeed, in 2019, UK adult (25-64) participation in training and learning was significantly higher than both the EU average and the number for Germany.

The challenge is not that we don't do it. It is that we do not do it well enough. Much training takes place outside of regulated systems and focuses on immediate needs. The birth of the small firm economy – and the death of many behemoth industrial training schools of the past – has only accelerated this.

But this is not to say that it needs to be this way. British management has had, and still has, a capacity for change. In the 1980s the principles of lean production shot through our manufacturing industries, as those who had seen it done well arrived in businesses and made radical changes.

And that is the challenge now – to show it done well, and shout about it. We need skills FOMO (fear of missing out). Lecturing managers will not work; they need to see the upside of leaning in and be reassured they aren't being taken for another ride by a system high on public cash. As firms, we need to address the incentives we set and the management development curriculums we use to underpin a confidence to think long-term. And then we need the system to meet us halfway.

Employer responsiveness, not employer ownership

Too often, firms with the best of intentions navigate the system badly. From the firms caught out by unscrupulous providers seeking government skills cash, to those who were upbraided by officials for not taking part in Train to Gain when the scheme couldn't offer what they needed – the long-term return on investment to the system has been difficult to discern, and difficult to access. For many managers, already incentivised to short-term performance, the risk was too high.

No policy highlights this like the Apprenticeship Levy. Designed in a bunker, beloved of a provider network that sees the Government as its client, and big in numbers, this was meant to be a game changer. Businesses would love it to be that – they would pay more for a system that works. But it isn't.

Every criticism made of the levy by business groups in 2016 has come to pass. Just as managers in businesses need to be supported to understand why investment in skills matters, we also need to acknowledge that too much skills policy in Whitehall has failed to deal with the simple question of why a firm would invest. The levy does not encourage payers to do more apprenticeships, away from the very highest levels. It fails the Leitch test.

It's all about the clusters

Finally, a word on delivery. Support is built up in business by being able to see the practicalities. By relationships and networks. That is why the best innovations in England right now are happening with mayors like Andy Street. We will go forward, together, when there is a stable framework for investment and an economically relevant offer to businesses where they are, built on local partnerships like the new local skills improvement plans (LSIPs).

Taken together – firms changing how we support managers to understand skills need, and factoring it into business planning, a system that meets businesses where they are, and local delivery leadership – we could build competence and confidence to do a lot more. Best of all, it will finally give us all what we need – a bully pulpit. A chance for those firms who are doing the right thing to go to managers who are not engaging and say, "we're all in this together – the only trouble is, you are not".

Recommendation 1

Firms need to look at management training and incentives. Putting the people stuff first is non-negotiable in the 2020s, and practice needs to change to incentivise managers to think about the longer term, so that they invest when an investable training proposition arrives.

Recommendation 2

Government needs to end the redesign cycle of the English skills system and focus on a system that sets a stable set of incentives to encourage firms to invest both levy funds and their own money.

Recommendation 3

Delivery frameworks should be highly devolved, building local skills networks that are employer responsive, and creating clusters that firms of all sizes can access.

Ewart Keep, Professor Emeritus, Education Department, University of Oxford

Strategies to drive-up employer investment in training

The starting point for progress is to recognise that in England, the rights, roles and responsibilities of employers in relation to skills are remarkably unclear. It is impossible to find any answer to the fundamental question – what elements or aspects of initial or adult training are employers expected to contribute to, in what manner, and via what mechanisms?

Employers viewed as consumers of publicly funded education and training

The Government's current notions of 'employer leadership' in the skills arena are narrowly-defined and focused on enhancing the power of employers as external consumers of the outputs of the publicly funded post-16 education and training system, rather than boosting their role as producers or co-producers of skill within that system.

Current institutional infrastructure

The institutional infrastructure through which government seeks to engage with employers consists of:

- employer representative bodies delivering local skills improvement plans (LSIPs)
- the Institute for Apprenticeship and Technical Education (IfATE) and its trailblazer groups that set standards for apprenticeships and T Levels
- Local Enterprise Partnerships (LEPs) and their Skills Boards (now operating in the shadow of ERBs delivering LSIPs)
- meetings with a group of large employers
- meetings with the national business organisations, such as CBI, IoD, CIPD and British Chambers of Commerce (noting many local chambers are the lead employer body on LSIPs).

Gaping hole: sectoral representation

There is, however, a gaping hole where in other developed countries, an economy-wide pattern of sectoral representation would be.

Unfortunately, the UK Government chose to abandon a system of sectoral representation (Sector Skills Councils). It is now placing its hopes in the efficacy of employer representative bodies leading on LSIPs as the latest in a long line of local employer bodies (such as Local Employer Networks, Training and Enterprise Councils and Local Learning and Skills Councils).

Transmitting employer skills needs to the publicly funded system

The bulk of the activity undertaken through the existing set of employer representative bodies centres on encouraging firms to specify their skill needs and then transmit these to providers (awarding bodies, schools, colleges, universities and private providers). Asking employers what they want is plainly important, but asking them how they intend to help in delivering what is needed is even more critical. And yet, this is not happening.

Falling employer funding of training

What is striking is that this absence occurs against the stark backdrop of a long-term, persistent, and significant decline in the volume of training hours being delivered to the adult workforce, and also a reduction in employer investment in skills. Far from employer leadership on skills, what we are witnessing is a slow retreat, as most employers spend less and less.

As the National Audit Office has noted, "Government knows that employers' spending on workforce training has fallen... but has not made clear to what extent it is seeking to influence employers to invest more in developing the skills of their own workforces" (Developing Workforce Skills for a Strong Economy, NAO, 2022).

Indeed, the overall judgement of the NAO is that "DfE is staking its success on a more employer-led system but, from the evidence we have seen, it is unclear whether the conditions are in place for this to be implemented successfully, in particular whether employers are ready to engage to the extent that will be needed to achieve a step-change in performance" (NAO, 2022).

Few policies to increase employer funded training or co-funded training

In short, other than the Apprenticeship Levy, there are no policies in place that aim to leverage more employer spending or action, and no mechanisms beyond LSIPs and trailblazer groups that can deliver collective employer activity. Unless and until this policy vacuum is filled, progress is very unlikely to occur.

Baby steps

Given the current lack of institutional capacity, political will and policy levers, 'baby steps' are all that can be essayed at present – but these steps are an essential precursor to and foundation for more specific policy interventions, such as any 'reform' of the levy.

Recommendation 1

Government needs to work out what it wants or expects employers to contribute and then discuss this with them, with the aim – however difficult to achieve – of creating a shared understanding of the respective rights, roles and responsibilities of state, individual and employer, as well as a set of shared long-term goals.

Recommendation 2

Government needs to think through how to develop and integrate the work of Local Enterprise Partnerships, Employer Representative Bodies leading on LSIPs, and the role of MCAs/local authorities in delivering business and skills support to local employers.

Recommendation 3

Government needs to set about re-creating a sustainable sectoral infrastructure that can concert and deliver employer action on skills forecasting and delivery.

Sam Alvis, Head of Economy, Green Alliance

Transitioning to net zero, green skills and employer investment in training

Transitioning to net zero is an economic challenge and it must work for the whole of society. Central to transitioning to net zero will be government working closer with businesses to increase investment in much needed infrastructure and technology.

Department for energy security and net zero

In February 2023, the Prime Minister announced the creation of a new and separate Department for Energy Security and Net Zero (DESNZ). The new department sits alongside a new Department for Science, Innovation and Technology, and the Department for Business and Trade.

The race for capital

DESNZ has been cautiously welcomed. But as Chris Skidmore MP, a former science minister and head of Mission Zero (The Independent Review of Net Zero) has said, the UK is now in a race for capital and to seize the opportunities of net zero. This has been made all the more apparent with the passage of the American Inflation Reduction Act to subsidise green industry, and the EU's recent response.

Joining-up net zero capital and skills investment

Yet, there is another critical challenge which must be faced. Linking policies to increase capital investment for net zero is no longer seen as sufficient for progress on net zero. Policies to increase skills investment for net zero must also be part of a comprehensive industrial strategy.

The Mission Zero review of net zero not only majors on investment in skills, but makes the case for public policy to see capital and skills investment for net zero as two sides of the same coin.

Failing to see the skills agenda as a fundamental part of a net zero driven industrial strategy will ultimately slow down our ability to reduce emissions. And these skills shortages, alongside inconsistency in policy, are holding the UK back.

Net zero jobs

According to the net zero strategy, government policy should create 190,000 jobs by 2025, and nearly 500,000 jobs by 2030. These jobs are promised to be higher skilled and better paid than elsewhere in the economy – even if evidence shows that premium narrowing.

Net zero and the tight labour market

But job openings need to be filled. Since the pandemic, UK economic activity has increased by 560,000. Meanwhile there is double that figure in unfilled job vacancies – 1.2 million from October to November 2022. Skills shortages are proving a major impediment to growth.

Transitioning to a net zero is going to make that even more challenging. What is one person's job creation is another's skill shortage. These jobs will not be shared equally across the economy. Research by Green Alliance shows that those sectors with the highest emissions have some of the largest potential skills gaps.

The construction industry

Take construction, responsible for 16% of UK emissions. It is estimated we'll need 300,000 more skilled workers in the sector, yet we could also see up to 750,000 retired by 2035 – the year when government hopes for all homes to reach energy performance certificate level C. This is compounded by construction being hit strongly by falling EU migration. Half of the members of the Federation of Master Builders are reporting difficulties in hiring.

Government has recognised this challenge, transitioning from its green jobs taskforce to the green jobs delivery group, intending to move from diagnosis of the problem to solving it. Though as with many policy areas in 2022, and a succession of responsible ministers, progress has been slow.

Key questions

This leaves two key questions. Firstly, in a tight labour market facing potential skills shortages, how do we develop the workforce required for net zero? And second, what is the balance between skilling up the existing employed workforce, training and retraining the unemployed and inactive workforce, and increasing 'green migration'?

Building a skilled workforce for net zero

Building a well-skilled workforce, adept in the challenges of climate change and the technologies and solutions to deal with it, is one of the major challenges for decarbonising the UK economy. Yet, whilst skills are now proving a barrier to emissions reductions, net zero is not unique and is instead emblematic of longstanding UK labour market challenges.

Employer investment in green skills

There are several reasons why employers are not investing in green skills. UK employer investment is half the EU average. A recurrent challenge, one that the Mission Zero report identifies, is that policies to increase employer investment in skills are distinct from policies to increase investment in plant, machinery and buildings.

The UK is bad at employer investment in capital and employer investment in skills. And our flexible labour market has traditionally incentivised hiring over investment in staff or automation.

Commentators including the TUC have pointed to short-termism undermining investment in both machinery and people. There are few tax incentives for employers to reduce the cost of investment in skills, and in a tight labour market, employers are increasingly worried that staff will leave or be poached.

Offshore wind industry

There is also scepticism over the volume of green jobs numbers, something shared by the public and labour unions. Green Alliance research found that the offshore wind industry needs at least 25,000 additional workers by 2035, 14,600 of them skilled. If industry thinks that the number is smaller, the pressure to secure workers is lowered. There are also barriers to moving staff between parts of businesses – for example from oil and gas to offshore wind – though energy firms alongside unions like Prospect have begun to address this.

Recommendation 1

Employers should have the same tax incentives to invest in skills as they do for plant and machinery. Offering SMEs a tax credit to support the transition to net zero should be combined with a SME tax credit to support investment in green skills.

Recommendation 2

Employers should be supported to enable existing employees and new recruits to train and retrain for net zero jobs where the training itself is based on short modular courses rather than expensive longer courses.

Recommendation 3

The content of apprenticeships must accurately reflect the needs of net zero, particularly in relation to novel technologies that net zero will require.

Dan Lucy, Director of HR, Institute of Employment Studies

Job quality, job design and driving-up employer investment in training

Evidence shows that employer investment in training in England remained stable in real terms between 2015 and 2019 (see Table 1). But there was a 9% fall in spending on training per employee in real terms from £1.7K in 2015 to £1.5K in 2019, and the average number of training days per trainee in England has fallen from 6.8 in 2015 to 6.0 in 2019.

Table 1: Employer investment in training

	2015			2017			2019		
	Total spend	Per trainee	Per employee	Total spend	Per trainee	Per employ-ee	Total spend	Per trainee	Per employee
England	38.9bn	2.6k	1.7k	39.1bn	2.6k	1.6k	39.2bn	2.6k	1.5k
Northern Ireland	1.0bn	2.1k	1.3k	1.1bn	2.4k	1.5k	1.1bn	2.2k	1.4k
Wales	2.1bn	2.8k	1.8k	2.1bn	2.9k	1.7k	1.7bn	2.1k	1.4k
Overall	42.0bn	2.6k	1.7k	42.2bn	2.6k	1.6k	42.0bn	2.5k	1.5k

Source: Employer Skills Survey 2019, Research Report, October 2020
Note: Scotland is covered by the separate Scottish Employer Skills Survey; NESS 2019

Employer investment in training is unequal, both across and within businesses. Smaller businesses and employers in lower wage, lower productivity sectors – such as retail and hospitality – are less likely to invest in training. In comparison, higher value and more knowledge intensive sectors are more likely to invest in training (Clayton N and Evans S, 2021, Learning at Work: Employer Investment in Skills. Learning and Work Institute).

Where employers do not invest in training, the most common reason given is that they believe there is no need for it. For those that do provide training, the most cited barrier is not being able to spare staff time and lack of funds.

Low-cost business models

The reasons behind the overall decline in some of the metrics for employer investment in training are unclear. Various explanations have been proposed including a lack of need due to increased numbers of graduates, increased efficiency in training, and less optimistically employers adopting 'low-road' competitive strategies based around low cost and which require lower levels of skills (CIPD 2019, Addressing employer underinvestment in training: The case for a broader training levy).

This last explanation has some evidence to support it with an observed reduction in the time taken to be proficient in role. That said, there is also anecdotal evidence of employers investing in skills despite adopting a low-cost business model in typically low-investment sectors (Anderton E, Bevan S, 2014 Constrained work? Job enrichment and employee engagement in low wage, low skill jobs. Work Foundation. Academy of Management Annals, Vol 11, No.1).

Misalignment between business strategy and human capital strategy

There are, therefore, examples of misalignment between business strategy and underlying human capital strategy (Parker S, Van den Broeck A, Holman D (2017) Work Design Influences: A synthesis of multi-level factors that influence the design of work). Research has explored the evidence for various factors impacting on these choices, including job quality and job design.

Job quality, job design and employer investment in training

The construct of job quality is typically assessed using a range of indicators. The Measuring Job Quality Working group (Measuring Good Quality Work: The final report of the Measuring Job Quality Working Group, 2018, Carnegie Trust. RSA), formed in response to the Good Work Plan, identified seven dimensions comprising the quality of work:

- terms of employment;
- pay and benefits;
- health, safety and psychological well-being;
- job design and nature of work;
- social support and cohesion;
- voice and representation, and
- work-life balance.

Recent analysis by the ONS2 assessed the current picture with respect to job quality in the UK analysing selected indicators by region, industry, and demographic and occupational characteristics (Office for National Statistics, 2002, Job Quality in the UK: Analysis of Job Quality Indicators: 2021. ONS). To take one of the indicators as an example that is relevant to skills, men working full-time in knowledge-intensive industries in London were most likely to report positive perceptions of career progression opportunities. The Chartered Institute for Personnel Development's (CIPD) Good Work Index concluded similarly, finding a consistent pattern of better job quality among higher-level occupations and being generally lower in lower-level occupations (CIPD, 2022, Good Work Index 2022 – UK Working Lives Survey. 2022).

Effective job or work design has the potential to impact multiple aspects of job quality. Job or work design can be defined as "the content and organization of one's work tasks, activities, relationships, and responsibilities".

Essentially, all organisations face the challenge of how to divide and allocate the work that needs to be done, and then to integrate those efforts through coordination and cooperation. There are multiple solutions to this essential problem of organising, and the choices made have implications for job quality including skills needs.

There is considerable evidence that effective job or work design has benefits both for the individual and the organisation (Parker S, Van den Broeck A, Holman D, 2017, Work Design Influences: A synthesis of multi-level factors that influence the design of work).

The core idea is that job or work designs that are deleterious to the individual worker, which are typically Taylorist in nature and involve little worker control over how tasks are done, are not inevitable or even desirable, even in low-cost business models or typically low paying sectors (Ton Z, 2014, The Good Jobs Strategy. MIT Sloan School of Management). More preferable are work or job designs which offer worker autonomy, social support, and that avoid an imbalance of demands and resources (resources includes skills, supervisor and peer support).

A review of research exploring the question 'Where do work or job designs come from?' concluded that whilst there is evidence for the impact of external factors on job design, proximal factors such as managerial decisions play a significant role (Parker S, Van den Broeck A, Holman D (2017) Work Design Influences: A synthesis of multi-level factors that influence the design of work).

The research identifies examples of high involvement HR strategies incorporating investment in training in low-cost business models. There is also the unresolved question of whether greater investment in skills can, as it were, force greater adoption of more enlightened approaches to work design and hence higher job quality through either employees' crafting their own jobs or managers having greater trust in the competence of their staff and willingness to delegate more complex tasks.

Recommendation 1

The Government and wider stakeholders should continue to pilot interventions in improving work design and job quality, develop the evidence base and, importantly, spread good examples of improving work design and job quality.

Recommendation 2

The Government should continue and enhance efforts to encourage investment in skills development, including managerial competence and capability.

Recommendation 3

The Government should target job quality and job design strategies alongside strategies to increase employer investment in skills development – including management training – on enterprises in low wage, low skill sectors.

Natasha Waller, Policy Manager, LEP Network

Local inward investment, business support and employer demand for training

The 38 Local Enterprise Partnerships (LEPs) are business led partnerships between the private, public and third sector. They play a central role in determining the economic priorities for their region and driving economic growth, improving infrastructure, creating jobs and developing workforce skills.

The role of LEPs in local inward investment

LEPs work with their local stakeholders to encourage inward investment into key development areas, such as Enterprise Zones, highlighting opportunities and embedding prospective businesses with the local networks related to skills and employment. Gone are the days where there is a ready supply of potential employees. Instead, new (and existing) businesses need to engage with education providers and embrace employability initiatives being delivered locally and nationally in order to get the required talent.

LEPs have a unique role to play in bringing these partners together, understanding that landing a business in a given location is not the defining objective for effective inward investment, more the benefit that specific inward investment project brings to the area and how that investment adds more value to the local economy.

In Norfolk and Suffolk, the two County Councils and New Anglia LEP have pooled resources to create a joint Inward Investment Service called 'Invest Norfolk & Suffolk'. 185 enquiries have been made through this service with some key leads for manufacturing and warehouse skills requirements.

In the South East LEP area, major projects have been brought together as a Skills Group, linking with their Skills Advisory Panel (SAP). Projects include the Lower Thames Crossing, Ebbsfleet Garden City, Freeports and Bradwell B.

The role of LEPs in business support

The role of LEP Growth Hubs is to provide practical support and guidance to local businesses, working with public and private sector partners such as the Chambers of Commerce, FSB, universities, Enterprise Zones and banks. They successfully delivered additional resources during the Covid-19 pandemic as they are a trusted mechanisms for immediate connectivity to employers.

They also act as enablers to support such as grants and loans. By providing business leads with evidence of progression and increases in productivity gained in one joined-up conversation, they are more likely to consider the holistic approach rather than to rely on material investments alone.

How these local strategies drive-up employer demand for training

LEPs have consistently delivered on skills activity since their inception. All have published evidence driven Economic Strategies and detailed Local Skills Reports which showcase the work overseen by their Skills Advisory Panels (SAPs). These reports use credible data, together with local intelligence, to present detailed analysis of the challenges and opportunities within a particular geography.

This local labour market intelligence underpins local skills and employment strategies, and sets out priorities for fundings sources and curriculum development. Recent examples include Skills Bootcamps and Multiply, plus the remaining ESF. They will also help shape Shared Prosperity Funds.

Several LEPs have developed Workforce Development Advisor roles who build up relationships with employers and provide advice and support on how to attract, increase and sustain their workforces and talent pipelines. These hybrid roles, sitting between the Growth Hubs and the Skills Teams, are also successful in maximising the sharing of Apprenticeship Levy.

The Hull and East Yorkshire (HEY) LEP Talent Forum informs providers and investors on developing suitable training courses. Many LEPs run specific sector skills groups.

Regional employer engagement within provider settings and at stakeholder level is essential. Emerging growth sectors, which LEPs are acutely aware of, will share the workforce needs regionally and at employer level. If local talent is unavailable, employers need to be encouraged to be part of its development. However, resources are required – money, time, curriculum and tutors.

Younger residents are often not aware of career routes so the LEPs Careers Hubs play a valuable role. The Chancellor recently highlighted the issue of inactivity among the 50+ age cohort, many LEPs supported the DWP with a 50+ Choices pilot in 2021 to encourage employers to review their HR practices with this age cohort.

As the country faces some of its biggest economic challenges for decades, the role of LEPs in ensuring that businesses engage with LEP led skills and employability programmes has never been more valuable to local economic growth, and the Government should utilise this asset and make use of the invaluable economic evidence and sector links that LEPs are wired into.

Linking LEPs to employer representative bodies and LSIPs

The DfE local skills improvement plan developments, whilst welcomed in terms of regional investment, have completely overlooked the knowledge, experience and impartiality of LEPs work to date. Their focus on technical training limits their reach.

The Employer Representative Bodies assigned (typically Chambers of Commerce and FSB) have not traditionally had a comprehensive skills remit. LEPs are strongly contributing to the LSIP process. Timescales are also unrealistic to carry out comprehensive business engagement.

Without the expertise and relationships built up over a significant time period, it is possible that in some areas the LSIPs will not reach their potential, and this is something that cannot happen. LEPs are willing and able to play their part and welcome the opportunity to do so if funding allows.

Recommendation 1

The Government needs to recognise the invaluable economic evidence and sector links that LEPs have and there should be continued financial support for Growth Hubs at a time of economic need.

Recommendation 2

Inward investment businesses should seek out more opportunities to engage with skills and employability programmes.

Recommendation 3

The recently formed Department for Business and Trade and the Department for Education must work together to formally acknowledge the work that LEPs do with skills and employment and formally link it to that of the Employer Representative Bodies leading on LSIPs.

Jovan Luzajic, Acting Assistant Director of Policy, Universities UK

Universities, R&D, business innovation and meeting employer skills needs

Universities play a vital role in the UK's business and innovation ecosystem; their network of labour, skills, research and commercial activity is an important part of efforts to kickstart growth across the UK.

The exceptional capability of UK university research and innovation is a genuine national asset. It happens in all parts of the UK, and in universities of many different types – from large universities with broad subject areas to small, specialist institutions. Health discoveries often make the headlines, but research brings so much more, including new technology, jobs, economic growth, and a better understanding of the world we live in.

University research and innovation

University research and innovation attracts investment and makes world-leading discoveries, generating knowledge and creating and nurturing new, innovative businesses and jobs across the UK.

High-quality research is happening throughout the UK, with more than 80% of research emerging from each nation and region rated as 'world-leading' or 'excellent'. Universities in every part of the UK are supporting innovation through the creation of new businesses and partnering with large and small companies.

As inherently global, as well as national and local institutions, universities leverage their international connections to attract major foreign direct investment into R&D programmes that catalyse innovation-led growth and create skilled jobs across the economy.

Investment in research and innovation delivers high returns and creates economic benefit, with proven returns on investment from public funding – every £1 of public R&D spending stimulates between £1.96 and £2.34 of private R&D spending.

University research accelerators are found across the country and provide intensive support for businesses to grow, providing business, financial and technological advice to new or existing companies. Universities often have accelerators for current students, staff, alumni and local businesses to make use of.

Evidence shows university-led accelerators are associated with faster sales and job growth in participating businesses than those not connected to a university. Being connected to a university also has a positive effect on business survival.

In 2020–21, combined graduate start-up and university spin-out activity in local areas generated nearly £5 billion in turnover across the UK. University spin-outs attracted £2.54 billion in equity investment in 2021.

Universities UK (UUK) research suggests that universities have the potential to provide even more support to businesses, worth more than £11.6 billion over the next five years and creating 21,650 new businesses attracting around £21.7 billion in research funding across the UK.

To achieve this aim, the Government needs to ensure public funding for research and innovation supports this important activity. The Chancellor set out a clear commitment to protect funding for research and innovation in the 2022 Autumn Statement, a strong vote of confidence in UK universities, amongst tough choices.

However, issues remain that risk hampering university contributions. There is continued uncertainty over the UK's association to Horizon Europe, and many vital research and innovation projects face a cliff-edge as EU Structural funding comes to an end in 2023.

UUK urges government to secure association to Horizon Europe and protect the budget set aside to fund alternatives, alongside urgent action to avoid the loss of hundreds of vital growth-boosting university research innovation projects which are at risk, as EU funding ends this year.

Supporting local productivity and jobs

SMEs are key employers and sources of potential jobs growth and are particularly important in regions where there are fewer large employers. Universities support these businesses through sharing of their infrastructure, facilities and expertise to drive local collaboration leading to greater innovation, boosting productivity across the UK.

One of the success stories of cooperation between universities and businesses is the University Enterprise Zone (UEZ) initiative. Launched in 2014, UEZs encourage universities to strengthen their roles as strategic partners in local growth and to stimulate development of incubator or 'grow-on' space for small businesses. A 2020 evaluation of UEZs found that for every £1 of UEZ funding provided by government, they generated £4.50 of additional public and private funding.

Universities also play a strong role in upskilling UK entrepreneurs through the Government's Help to Grow scheme, which provides skills training to help SME business leaders to increase productivity, seize investment opportunities and grow their business. As of March 2022, 38 UK universities were offering management courses as part of the scheme.

Meeting the skills needs of businesses to deliver innovation

A 2020 report by the National Centre for Entrepreneurship in Education (NCEE) showed that 89% of university leaders across the UK reported an increase in entrepreneurship activity provided by their university over the previous three years. The same report outlined that 98.3% of universities provide extra-curricular support for enterprise and entrepreneurship, and over 80% of universities run ideas competitions, enterprise awareness events and festivals, careers service events and workshops and provide mentoring for start-ups.

According to the UK Innovation Survey 2021, science, technology, engineering and maths (STEM) graduates make up a greater share of the workforce in highly innovative businesses compared to less innovative businesses.

Recommendation 1

Given the high returns on investment to public Research and Innovation funding, and the economic benefit this creates, we urge government to continue protection of this funding. This includes securing association to Horizon Europe and protecting the budget set aside to fund alternatives; and taking urgent action to avoid the loss of hundreds of vital innovation projects that are at risk due to the ending of EU structural funding this year.

Recommendation 2

Given the success of UEZs, we recommend that the government rapidly expand the UEZ programme across England and for devolved administrations. There should be such an initiative in every university across the UK, raising the profile of what universities are already doing, supporting the scaling up of engagement between universities and businesses and driving local opportunities and growth.

Recommendation 3

We recommend that the government build on the excellent Help to Grow scheme to enable SMEs to recruit the talent to deliver growth. The Government should set up a follow up 'Make it Grow' programme, focusing on recruiting students to support specific projects, internships and apprentices.

David Hughes, Chief Executive, Association of Colleges

FE colleges, business innovation and meeting employer skills needs

There are 163 further education colleges in England. They work with around 130,000 employers – an average of 800 employers each. There are around 2.4 million businesses in England. And so, for every single business a college works with, they don't work with another 17. It is easy, perhaps, to understand why we hear too often that colleges are not doing enough to meet their needs.

A wrongly presented solution

The solution being presented to employers and colleges today is that we need a stronger 'match' between what colleges offer and what businesses say they need, in real time. The presumption is that any 'skills shortage' is because of a deficit in the education and training system and that there is a pool of people waiting to gain skills and ready and willing to work in the jobs which are vacant.

This simplistic view is frustrating, because we know it is far more complex than that. Many employers have, over the last couple of decades, been able to simply recruit the people they need, with the skills they need, from an open and vibrant labour market.

When employers start to find it difficult to recruit people, the finger is often pointed at colleges and other education providers for not meeting their needs rather than thinking about pay, working conditions, flexible working, recruitment practices and so on.

Workforce development and business strategy

And yet, the best employers know that the skills needed today will be different tomorrow and see workforce development as going hand in glove with business strategy, technological change and innovation.

They view skills as part of what they need to invest in if they are to stay productive and viable, and as their business changes. They know that attracting diverse talent, offering skills development in the workplace and productivity are strongly linked.

Because of that, they work closely with their local college to ensure a strong pipeline with the right skills, through influencing the curriculum, helping develop learning materials, doing some teaching as well as offering work placements, taking on apprentices and offering interviews for suitably qualified students.

That link between business change and skills demand is central to the opportunity colleges present for stimulating and supporting businesses to innovate and for helping more students to develop relevant and up to date skills for those innovating businesses.

Business innovation and colleges

In 'FECs, innovation, and skills: A literature review (2022) Nelles, Walsh, Papazoglou & Vorley argue that 'skill mismatches are a key factor in inhibiting productivity growth' but they go on to recognise that overcoming them is not a simple matter. Their conclusion is that there is a need for "intensive local and regional collaboration of FE colleges (FECs) with business and other education institutions (including HE institutions)".

In a second report, 'Rethinking the role of further education colleges in innovation ecosystems' (2022), Vorley, Nelles & Baxter explore this wider role of colleges. The report concludes that colleges need to develop their capacity to support business innovation, based on a deeper understanding of the needs of existing local/regional businesses within the ecosystem of innovation and business support which already exists.

Innovation advice to SMEs

Despite not being resourced to do it, many colleges offer advice to SMES on innovation and business change as part of their service, and then back that up by delivering the skills that are needed in the existing workforce and for new recruits. As public sector anchor institutions, colleges are well-placed to offer SMEs advice and support to innovate, to improve their productivity and to grow.

Working in partnership with the college, they can help ensure the curriculum is relevant and that students get the skills that will help them find good jobs and progress in those businesses. A perfect partnership of interests supporting an inclusive and thriving economy.

Recommendation 1

DfE and the new Department for Business and Trade should collaborate on a Further Education Innovation Investment Fund round to support colleges to build their capacity to help businesses innovate in priority sectors.

Recommendation 2

DfE should work with the new Department for Energy Security and Net Zero to develop a development fund for colleges to be able to work with businesses to re-skill their workforces to be ready for the drive to net zero.

Recommendation 3

DfE should review the progress of LSIPs against the ambition of developing intensive local collaboration between colleges, businesses and universities.

Part Three
Increasing employer investment in training

Paul Bivand, Labour Market Consultant

Why should employers invest in training in a flexible labour market?

The recent 'Slouching towards utopia: an economic history of the twentieth century' by the US economist J Bradford DeLong shows a turn in the world economy around 1870, with the development of globalisation, the modern corporation, and the industrial research lab. It began first in the USA, and then continued in other countries.

This produced a change in the trend of innovation and hence, economic growth and prosperity. The pre-First World War period saw the first phase of this growth – but with high inequality. After the two world wars and the inter-war period, these trends – globalisation, major corporations and industrial research – were enabled to take further major steps by government support towards full employment, in the Keynesian consensus.

The Wilson world of the 1960s and 1970s

The description of a world in which major corporations were dominant, ran industrial research, and trained their workers on the new processes and machines resulting from their innovations – supported by government – is the world we used to know.

We can call it 'Wilson-world' after Harold Wilson's 'white heat of the technological revolution' speech.

Industrial Training Boards ran levy systems that funded training outside the biggest companies that ran their own. These were paid for by employers, but supported and encouraged by government. In Wilson-world, it was common for people to work within the same firm for many years, developing skills as technologies used by the firm changed.

The neoliberal turn from 1979

In the UK, what appears internationally as 'the neoliberal turn' really started with Margaret Thatcher from 1979. Later, governments continued the same themes, so changes have now gone far further. The latest attempt to move from gradual neoliberal change to a crash-course of neoliberalism (Liz Truss) has crashed, but the ideas and the themes are still widely held and, perhaps particularly, held by business owners and managers as well as some politicians.

A 'neoliberal-world' involves entrepreneurs innovating and contracting with other entrepreneurs to implement and market their innovations. Entrepreneurs contract with other entrepreneurs, including self-employed labour-only businesses, for the work they want done. If workers are entrepreneurs they will invest in their own skill set, and the prices agreed for the sub-contract will reflect the market value of the skill set.

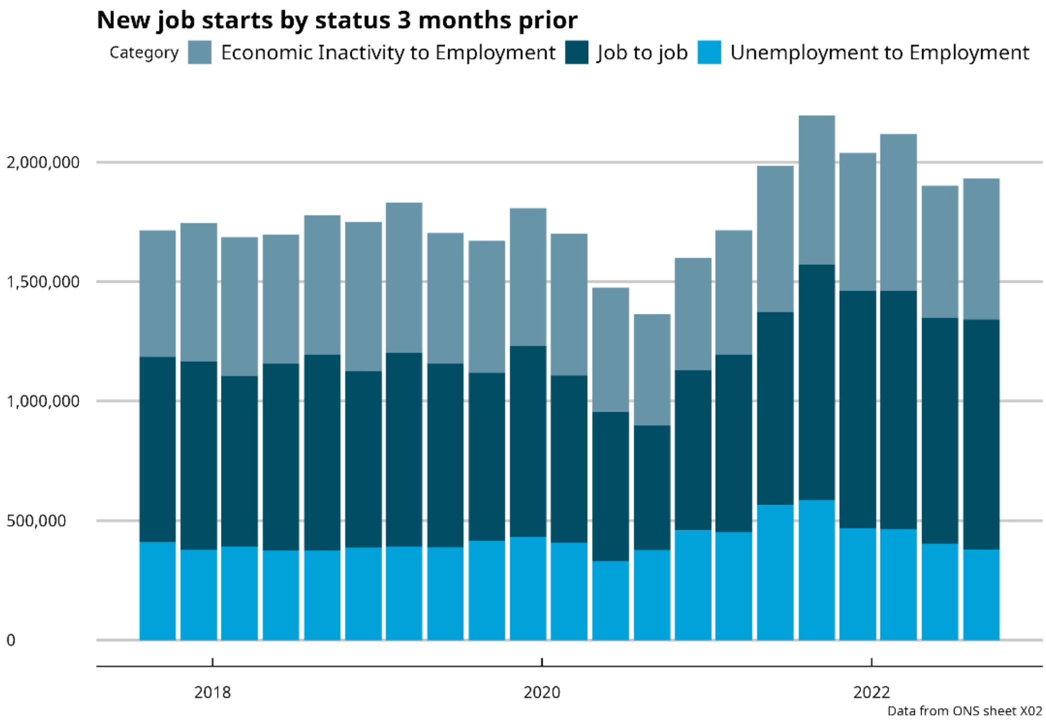
The real world

The real world involves a mixture of both neoliberal-world and Wilson-world. This mixture has conflicts and is unstable.

7m-8m job starts a year

The current version of the mixture has a high level of job movements (see Chart 1). There are between 1.5 million and 2 million job starts each quarter (slightly higher immediately after reopening from lockdowns). Over a year, that is between 7 and 8 million job starts, between 20 and 25% of the total number in work.

Chart 1

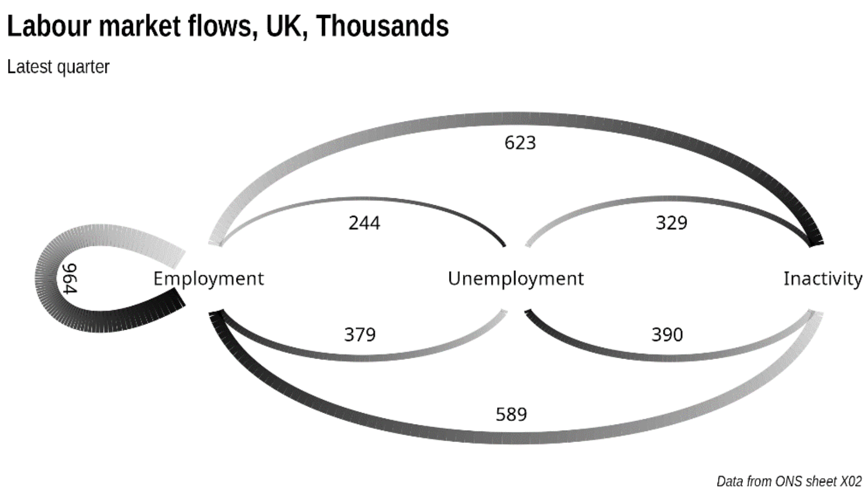


This is also an underestimate, as one of the characteristics of self-employment (and to some extent of agency work) is that one stays in the same status while working in or for a number of settings, which for employees would be counted as separate jobs.

The very large number of job-starts from inactivity do show some effect of starts by previously inactive full time students in further and higher education between the July-September and October-December quarters. But in other quarters, 500,000 or more economically inactive people start jobs (which is bigger than the number of job starts from unemployed people almost all quarters).

These flows are counterbalanced by flows in other directions (see Chart 2). A rise in employment is a result of the net flow. The chart shows the flows in July-September 2022. The dark ends of the lines show the ending point of the flow.

Chart 2

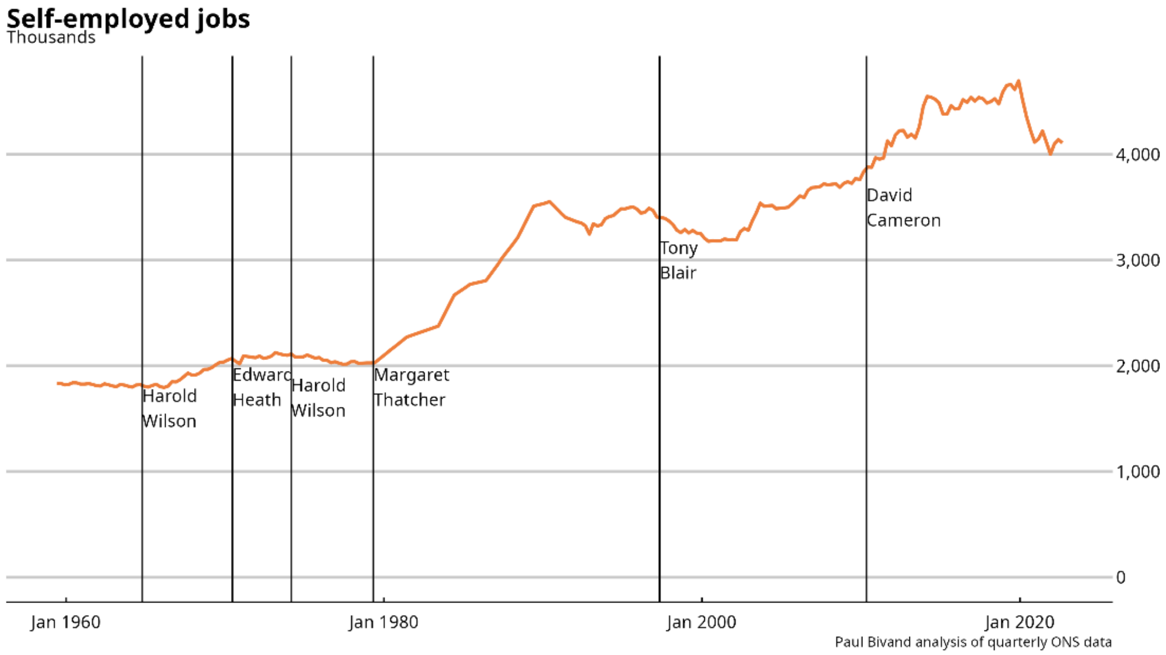


Contingent work

Contingent work is where there is a degree of flexibility that involves some movement towards people having sub-contracted work. Contingent work is wider (and longer standing) than the 'gig economy' considered as working for internet platform firms.

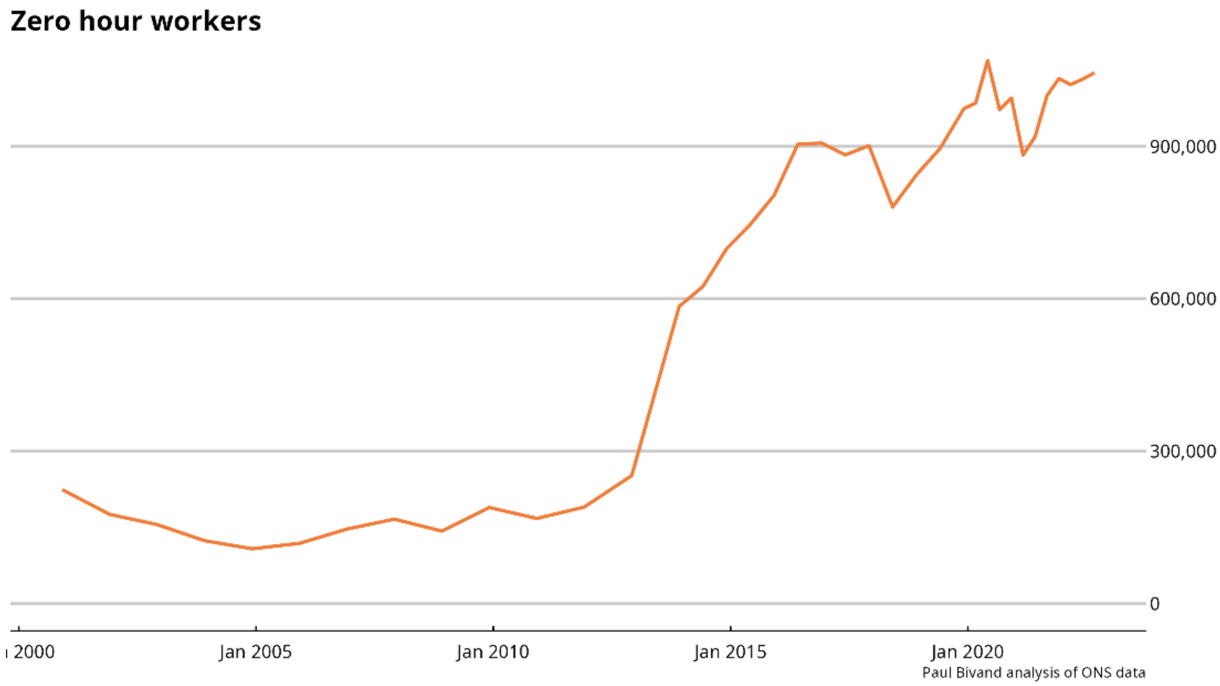
The oldest and most basic form is self-employment (see Chart 3). This was around 2 million before the 'neoliberal turn' of 1979. Because self-employment is seen as entrepreneurial, it has had favourable tax treatment, partly reversed in the most recent period (IR35 regulations). As a percentage of jobs, self-employment reached 12% in 1989, before falling to 10.5% in 2002, then rising to 13.5% in 2014, remaining close to that level until 2020.

Chart 3



Over time, the forms of contingency change. The growth of zero-hour employee contracts (see Chart 4), largely since 2001, is the most recent of a series of moves towards contingency, and in some cases looks as though employers did not know they could do it until it hit the headlines.

Chart 4



Employee forms of contingent employment are on top of this. The Work Foundation's Insecure Work Index identifies 19.8% of the workforce as having 'severe insecurity', with a further 33.0% having 'low/moderate insecurity'.

These include self-employment. Less than half the workforce (47.2%) had no forms of insecurity. In the context of training, this means that 47.2% worked in firms where employer investment in training would be logically part of an employment package.

Employer investment in training

In Wilson-world, the employer invests in skills development. The employer pays, so expects the lion's share of the return. The wage of the trained worker is a little higher than the lower-trained workers, while the job may be more secure than for the untrained. Employers and workers can work together to 'grow the pie' so the benefits of growth are shared. The role of government is partly to minimise conflicts, but also to incentivise both innovation and training as two sides of the same coin.

Individual investment in training

In neoliberal-world, everything is contingent. Job security is opposed by 'creative destruction'. If there is no return to employers from paying for training as individuals leave them to find higher pay, employers would not be acting rationally to invest in training. And it would be even less rational for one entrepreneur to invest in the skills of their contractors if they cannot tie down a contract so that they – the commissioning employers – gets a return.

Workers are often satisfied with the more contingent forms, when asked in surveys. But in the neoliberal-world, it is for individuals and employees to be more entrepreneurial about their careers, skills-set, upskilling and reskilling.

The neoliberal-world usually sees little role for government in employer investment in training. On the other hand, if government does get involved, then entrepreneurs can take advantage of that (and lobby for more advantage).

Recommendation 1

Businesses need to recognise that their contractors need incentivising to gain the necessary certifications. This does mean contract values need to include the market value of qualifications (rather than assume government will fund them for free).

Recommendation 2

The adult skills world needs to recognise the existence of neoliberal-world and develop policies to address learning in that context. The failed Individual Learning Accounts were an early attempt to address the changing world. The continuations in Wales and Scotland have been small and restricted to public funding in priority sectors for insecure workers, and so do not fit into the neoliberal paradigm.

A new Individual Learning Account that fitted better into neoliberal-world could resolve the information asymmetry (the worth of courses) by requiring that qualifications are regulated, but having a regulated funding arrangement similar to auto-enrolment pensions into which employers and employees paid.

Self-employed people could (as with pensions) avail of similar systems. This would generate funds rather than requiring public funding. Public information using open data can provide information on the returns to qualifications.

Recommendation 3

For adult skills, living costs must be addressed, rather than just course fees. If people are giving up time they could be earning to train on their own account, then they need to be able to draw down living cost funding as well as course fees and training materials. In neoliberal-world, this needs to come from their ILA savings.

Aidan Relf, Skills Consultant

Why should employers invest in training with large net worker migration into the UK?

On Thursday, 23rd June 2016, the UK voted to leave the European Union and some three and a half years later, on Friday, 31st January 2020, the UK formally left. The transition period ended on Thursday, 31st December 2020 and the free movement of people – including workers – between the UK and European Union member states ceased.

As a consequence, the UK was in a position to determine migration into the UK – especially of workers – from the rest-of-the-world (RoW) and the European Union (EU), and critically the scale of net migration. The points-based immigration system allows the UK to determine overall net migration between the RoW and EU. The UK can decide whether for a given level of net migration, more workers come from the RoW relative to the EU.

Scale of net migration and employer investment training

In many ways, however, the source of net migration of workers is a secondary order issue of employer investment in training policy. It is the scale that matters.

A tight worker immigration worker policy implies a greater focus on training the resident workforce including employers investing more in training. A loose worker immigration policy – irrespective of whether the source of labour is from the EU or the RoW – means employers can recruit skilled labour from the external labour market.

Changes to worker immigration policies

Prior to Brexit, one of the four pillars of our membership of the EU was freedom of movement of labour for EU citizens. Highly skilled workers from outside the European Economic Area and Switzerland, who had a qualifying job offer in the UK or a job on the Government's Shortage Occupation List (SOL), could apply for a Tier 2 General Work visa. As a general rule, a Tier 2 Visa required a minimum salary offer of £30,000 per year. The result was that many EU workers tended to take lower skilled jobs with low rates of pay while non-Europeans obtained a visa for a higher paid post.

Brexit ended freedom of movement between Britain and Europe in January 2021 and both it and the Tier 2 system were replaced by the Skilled Worker visa for non-UK citizens wanting to come and work here. Specific eligibility depends on the job, but while the UK has 'taken back control' of its immigration policies, the new system is arguably more liberal than the previous regime.

Half of all jobs here are eligible for visas, yet employers still lobby for roles to be included on the Government's Shortage Occupation List which affords more relaxed eligibility criteria for sponsored work visa applications. The agriculture and poultry sectors benefit separately from the Seasonal Worker visa scheme and international students have their own visa scheme.

The most high profile example of a new addition to the Shortage Occupation List has been care workers and home carers, where the minimum salary threshold is £20,480. Nevertheless, in making its recommendation for the addition, the Migration Advisory Committee (MAC) said that there should be a higher minimum wage for care workers. For other sectors, we should avoid a repeat of the Institute for Apprenticeships and Technical Education (IfATE) announcing in January 2023 a review of the hopelessly inadequate funding rate for adult care worker apprenticeships long after the profession was added to the SOL, and only after health and social care apprenticeship starts had slumped by 37%.

Before the new immigration rules were introduced, employers were undoubtedly using freedom of movement to fill both skilled and relatively unskilled vacancies, thus avoiding the need to invest in training or pay more. In the period 2014-19, the net growth of EU payrolled employees in the UK was 798,400 – an increase of 43.4% (UKICE working paper of January 2023 by Portes and Springford using ONS and HMRC data). As the Portes and Springford analysis shows, many of these workers were employed in sectors such as hospitality, care, logistics and retail.

A big challenge for policymakers who want to see less UK reliance on immigrant workers is that despite the regime change, net migration is now running at a record high of 504,000. While recognising the unprecedented spike in Hong Kong migrants, Ukrainian refugees and international students (most of whom return home after completing their course), a clear pattern has emerged. EU immigration has plunged to 43,000 – a fraction of the 230,000 to 430,000 EU citizens coming to the UK per year before 2020 – while the number of migrant workers from the rest of the world has increased significantly. From the employers' perspective, the problem is compounded by the fact that many EU workers who returned home after being employed in low skilled sectors are not being replaced – hence the reports of restaurants and pubs having to reduce their opening hours.

A tighter or looser net worker immigration policy?

Nearly seven years later, the irony is that net migration to the UK is currently substantially higher than pre-pandemic levels.

We have record net migration – which goes against the Government's intentions – at a time of record vacancies and major worries about the level of economic inactivity among older workers, while the number of 16-to-24 year olds who are NEET has shot up again to 788,000.

The Government and the CBI are bickering over who is to blame, with the former accusing the latter of "hankering for a broken model reliant on cheap labour from abroad and low wages for British workers". The CBI, of course, recognises that despite employers' frustrations, the Government will not want to make the visa regime even looser. And so, the CBI is instead calling for labour market interventions to be "the boldest in the world" to encourage more UK residents into employment.

A tight worker immigration policy and a step change in skills training

On the basis that the current Government is going to insist on a tight worker immigration policy, the Government will need to turbo-charge its skills strategy.

Employer Funded Training

The Government should seek to use the tax system to incentivise employers to invest their own resources in training. More thought needs to be given to a Super Skills Tax Deduction and a SME Skills Tax Credit outside of apprenticeships.

Apprenticeships

In the context of a tight worker immigration policy, the Apprenticeship Levy and digital account system in England is devolved at the right level – to each employer, as they know what their labour and skill needs are. Unless funding for non-levy paying SMEs is guaranteed, levy funding should remain restricted to apprenticeships only to continue to drive employer and societal support for apprenticeships.

Adult further education and skills

There remains a question, however, over the ability of employers to increase wages to recruit from the resident workforce within a tight immigration policy. Obviously there is a role of individual-facing adult further education and skills programmes so that employers can recruit skilled labour from the external labour market.

Matters are complicated by the fact that despite years of rhetoric about skills training being employer demand led, we still have a DfE funded post-19 further education and training system which cannot decide whether it should be driven by suppliers/providers or learners.

Policy and employment and skills programme delivery have also suffered from the lack of cross-government join-up between Whitehall departments. Devolving of the system across England adds further complexity even if it's the right thing to do.

There is a strong case for adult further education and skills programmes to be individually driven.

Recommendation 1

The Government should firmly resist using its Shortage Occupation List as a 'get out of jail free' card to allow more immigration as a short-cut alternative to employers improving pay and terms and conditions in key sectors. Making additions to the SOL should be a much more transparent consultation process with the involvement of employers and other relevant agencies such as the DfE's Unit for Future Skills and IfATE. Where the problem is a lack of skills rather than pay and terms and conditions, DfE, DBEIS and DWP should develop bespoke training programmes to assist employers with the cost of training.

Recommendation 2

The Government should develop a skills strategy for a tight worker immigration policy. Key elements of such a strategy would be encouraging more employer investment in training, extending employer engagement in publicly funded post-16 education and skills, and introducing individually-driven adult further education and skills programmes.

Recommendation 3

The Government should look to increase employer investment in training through a Super Skills Tax Deduction and SME Skills Tax Credit (excluding apprenticeships). The apprenticeship funding system should continue to be devolved to each employer, funding from the levy should remain restricted to apprenticeship training and assessment costs, and a system of permanent wage incentives for young apprentice hires introduced. The adult further education and skills system should be reformed with the introduction of Adult Learning Accounts and something similar to Singapore's Skills Future Credit.

Stephen Evans, Chief Executive, Learning and Work Institute

Raising employer investment in training

Debates on the role of employers in skills often focus on how the publicly-funded system can best meet their needs. This is important, but we shouldn't forget that employer's own investment in training is larger than public investment and that skills need to be used at work in order to boost productivity.

Research by the Learning and Work Institute shows that employers invest half the EU average on training, with the spend per employee falling 28% since 2005.

The best firms invest in their staff, but collectively, we're falling short. Not only do we invest too little overall, investment is skewed toward those with the highest qualifications; you're three times more likely to get training at work if you have a degree-level qualification than if you don't.

This contributes to the UK's poor productivity performance, limiting businesses ability to make the most of new opportunities and holding back life chances and living standards. There is a big prize to be unlocked.

Falling short

The current situation isn't through lack of trying. We estimate government support for employer skills amounts to almost £7 billion per year, with a revolving door of initiatives over recent decades.

The main focus today is the apprenticeship system, with large employers paying a levy based on their payrolls that can only be used for apprenticeships and small firms having 95% of apprentice training costs covered. This is a positive step forward, but the way it has been implemented has caused problems.

The idea is that employers choose which apprenticeships they want – but without sufficient incentives to influence their choices, this has led to a fall in opportunities for new starters and those with lower qualifications. The levy system also risks distorting patterns of training, with some employers picking apprenticeships to spend their levy when other forms of training might be more useful in some circumstances – when all you have is a hammer, everything looks like a nail.

In addition to apprenticeships, the Government also provides tax incentives amounting to over £1 billion per year through Corporation Tax and for self-employed people. Again, these passively follow employer choices meaning most of the value goes to training the already highly qualified, as they are more likely to get training from their employer and this training is likely to last longer and cost more.

Raising the bar

It's clear that current policy hasn't shifted the dial. In part, this is because employers invest in skills as part of their business strategies – to help them survive and thrive. So, the low growth and high uncertainty of the last decade will have held back employer demand for skills. Part of the answer, then, is a return to greater certainty and a successful plan to grow the economy, including supporting employers to invest in people and capital. But beyond this, current policy is siloed and doesn't encourage investment throughout the workforce. How to change this?

Reform of the Apprenticeship Levy and the apprenticeship system

First, we should reform the Apprenticeship Levy. Accredited training should be eligible for levy funding because it can make just as much difference. However, widening the training eligible under the levy would increase the risk of overspend or of insufficient funding being left over for small firms' training.

So this change needs to come as part of a wider set of reforms agreed with employers and trades unions to widen the scope of the levy (either more firms paying it or a higher contribution rate).

We also need to look at completion rates (just over one in two apprentices finishes their apprenticeship), fair access (so career starters get better access) and quality (reducing the high number of apprenticeship standards by broadening their scope in line with other countries).

Reform financial incentives for training

Second, we need better financial incentives for employers to invest in skills. We should replace the current Corporation Tax deduction for training spend, which disproportionately benefits firms investing in their already highly skilled employees. In its place we should introduce a new Skills Tax Credit, modelled on the successful R&D tax credit. This would allow employers to deduct 230% of the cost of accredited training and apprenticeships from their tax liabilities, with a higher rate for businesses employing people in poorer areas or investing in vital skills like digital, numeracy, literacy or green skills.

We should also review the effectiveness of other tax incentives for firms, such as lower employer National Insurance contributions for employing young apprentices.

Recommendation 1

Increasing employer demand for and utilisation of skills needs to be part of a wider plan to grow the economy.

Recommendation 2

The apprenticeship system should be reformed in partnership with employers and trades unions to widen the scope, broaden the training eligible for the UK Apprenticeship Levy, and embed access and quality.

Recommendation 3

The Government should use the Spring Budget to introduce a better targeted system of financial incentives to employers to invest in skills, including a Skills Tax Credit that rewards firms investing in essential skills or employers in lower-income areas.

Robert West, Head of Education and Skills, CBI

Increasing employer investment in training

With 80% of the 2030 workforce already in work, getting workplace training right, including upskilling and re-skilling, has never been more important.

The UK underperforms when it comes to technical skills. Government spending is predominantly on apprenticeships and has faced significant decline since the 2000s. While business is taking steps to address skills gaps and market failures, more can - and should be done - to reskill and upskill workers.

The CBI's Education and Skills Survey (2023) has revealed several interesting trends on this topic.

Fewer businesses are investing in adult education and lifelong learning

Concerningly, more respondents to this year's CBI survey stated that their organisation has not invested in adult education and lifelong learning in the past five years, with 17% of respondents indicating no investment compared to 9% in 2021.

When asked, businesses said that the main barriers they face in meeting their skills needs is accessing adult education. The top answer selected by employers was a lack of suitable, high-quality provision available locally, which was chosen by 35% of respondents.
Nearly a third of respondent firms (32%) identified a lack of funds and the prohibitively high cost of training is amongst their key barriers, and the same proportion (32%) cited challenges in sparing time for employees to attend training.

There was also a widespread lack of awareness of key government skills reforms aimed to engage businesses. 82% of respondents said they had little or no awareness of the Local Skills Improvement Plans (LSIPs), and 4 in 5 respondents had little or no awareness of the Lifelong Loan Entitlement that is pencilled in for 2025.

Businesses are adopting a hybrid approach to staff training and development

Businesses have adopted a mix of online and in-person training and development over the past year. 43% of respondents reported an increase in their use of on-the-job training, compared to just 1% reported a decrease.

Short courses have become a more popular form of training, with 26% of respondents increasing their use in the past year, compared to 4% who reported a decrease. The popularity of short courses chimes with insights from CBI members about the value of shorter, responsive forms of training to enable employees to top up their learning and address skills gaps as they arise.

Firms are uncertain about the sufficiency of training budgets to solve skills shortages

Respondent firms indicated that they agreed that their organisation analyses current skills gaps before setting training budgets. Just 5% strongly disagreed in their answer.

However, there was a high degree of uncertainty amongst respondents in answer to the question as to whether they felt their training budgets were sufficient to solve skills shortages, with one in three (34%) neither agreeing nor disagreeing.

Training budgets often seem to be one of the first lines to be cut when finances are tough. It is almost a cultural issue in the UK that we do not invest enough, we do not prioritise enough, training for our current and future workforce.

If we are to boost the UK's productivity and remain internationally competitive, there will need to be a step up from both business and government. The evidence points to five principles for future skills policy to ensure it remains appropriate for the future of work and creates the environment in which employers feel confident in investing more in training and to address the cultural change in attitudes to training that is required.

Five principles of the labour market

We need to ensure training is responsive to rapidly changing skills need. With skills changing so rapidly, there is a need for workers to keep topping up with new skills, which requires more flexible and modularised training options.

Training solutions must be broadened out beyond just apprenticeships. Apprenticeships are part of – but not the entire – solution. Fulfilling the UK's upskilling needs requires a broader mix of training solutions. The Apprenticeship Levy is an example of the lack of flexibility in the system.

The focus must be on productivity enhancing skills including digital skills and green skills. Skills demands of the future are changing the nature of work. There is an imperative to focus on increasing the UK's skills base in areas of future skills if the UK is to bridge the current innovation gap with other countries.

We must also address cost barriers to skills investment, particularly for SMEs. Cost is often cited as the largest barrier to skills investment for firms, and this is exacerbated for SMEs who lack the scale and capacity to engage in workforce training. Government can do more to change the scope of eligible R&D spending, or adjust the extent of tax deductions, to incentivise investment in training.

And we must monitor skills gaps across the economy swiftly to minimise their impact. With technology changing so rapidly, it will be important to ensure skills gaps are identified at the earliest possible opportunity, so that these can be addressed at pace.

Recommendation 1

The Government must flex-up the apprenticeship funding system in England.

Recommendation 2

Funding from the levy should be used to finance a broader mix of training.

Recommendation 3

Across the post-18 education and training system, we need to embrace modularised training provision.

Lizzie Crowley, Skills Policy Adviser, CIPD

Encouraging employer demand for training

Investing in training and development is critical for tackling skill gaps and improving workplace productivity. Yet, despite its importance, evidence suggests that employers in the UK are training less and investing less in their workforces than they were 20 years ago, with UK investment per employee now standing at around half that of the EU average. Smaller employers are even less likely to invest in their workforces; whilst just 5% of large firms are non-training enterprises, the figure for small employers (under 50 employees) stands at over 40%.

Barriers for smaller employers wishing to invest in training

Smaller employers typically face greater barriers to training participation than larger firms. These include, but are not limited to, informational barriers such as lack of knowledge about the availability of training opportunities, lack of understanding of its potential benefits, and financial barriers with small organisations unable to achieve the economies of scale enjoyed by larger businesses. Smaller firms are also more likely to be focused on the short term goals, on business survival and 'getting the job done', and are therefore less likely to make longer term strategic investments in developing their people.

Yet, we also know that smaller organisations are often blind to the skills challenges facing their organisations – for instance, smaller organisations are much less likely to identify that they have skills gap amongst their workforces. And even when they do identify a skills challenge, they often lack the internal capacity to put into place practices to develop their employees' skills because of poor management or a lack of a specialised HR function.

It is also widely recognised that many firms, particularly smaller or family-owned firms, adopt a 'low-road' approach to competitiveness and see human resources as a cost to be minimised, rather than invested in and properly harnessed. A low-road strategy can be self-reinforcing, in that previous decisions relating to capital and human investments take on path-dependency and determine future investments.

Stimulating employer demand

As noted by the Cabinet Office back in 2001, skills are derived from business need, so unless there are mechanisms in place to influence underlying need, then policy interventions are unlikely to have the desired impact.

The OECD has convincingly argued that addressing this requires direct intervention at the level of the workplace to support employers to either shift to higher-value-added production and/or reshape workplace practices to drive the demand for skills. For instance, evidence from Finland highlights the value of providing support to business via external experts to help firms to upgrade their workplace organisation, improve their people-management skills and redesign work, and to drive their investment in training.

The CIPD has also run a number of regional pilots to explore the sort of approaches that might work to raise SME's people management and development capability, and to stimulate their investment in skills via a limited amount of high quality 'pump-priming' HR consultancy support. The evaluation of these pilot schemes suggests that the provision of high-quality HR support to small firms at a local level, embedded through key partnerships such as Local Enterprise Partnerships, chambers of commerce and local authorities, has the potential to reach large numbers of employers and make a material difference to owner-manager confidence and capability and support productivity growth over time.

We estimate that a People Skills-type business support service could be rolled out across all 38 Local Enterprise Partnership areas at a cost of between £20m-£40m a year, and could potentially provide support to between 20,000 and 40,000 firms a year, depending on the level of funding. Over five years it could start to have a material effect on the people management and development capability of a significant proportion of businesses in an area.

And finally, if we are to create a business environment where business leaders regard their workforce not as a cost to be managed, but as a key value driver to be invested in, a strong focus on industrial strategy is needed. This is because addressing weak demand for skills and poor skills use by firms requires action across a range of connected policy areas – including business support, innovation, skills, economic development, and labour market enforcement .

Recommendation 1

Government should invest in high-quality business and people management support to build employer capability and appetite to invest in skills and improve how people are managed and developed in the workplace.

Recommendation 2

Whilst direct intervention with individual businesses is important, international evidence highlights the benefits of local approaches that target multiple employers, local areas should seek to leverage sectors and employer networks to stimulate and encourage SME investment in training.

Recommendation 3

Government should prioritise the development of a broad-based industrial strategy that encompasses and addresses the bulk of the economy and employment, rather than a narrow focus on a small sub-section of high growth or R&D intensive firms.

Anthony Painter, Director, and Daisy Hooper, Head of Policy and Innovation, Chartered Management Institute

Increasing employer demand for management training

We know that employers want and need management skills. We also know that management capability is fundamental to future productivity performance and public service improvement. However, our public debate is locked in caricatured narratives, such as dismissing higher level management apprenticeships as simply 'MBAs for London professionals' or 'generic' qualifications, which the data disproves.

The current reluctance to embrace modern, skilled management as crucial to future economic and societal success is harming our ability to develop businesses and organisations fit to face enormous collective challenges.

Significant employer demand for management skills

Management skills have been in demand in the UK for many years. 1 in 4 working people in the UK are managers (CMI Analysis of the Labour Force Survey data, 2021). Two thirds of these work in an SME. The majority of these will be 'accidental managers' – managers who have not received proper support and guidance from their employer to develop the skills required to lead in an effective manner.

An inability to effectively address this skills gap has directly contributed to current skills gaps which are growing. In 2013, UKCES found that 7% of organisations publicising vacancies had one or more management vacancy, with 1 in 5 of these vacancies being hard to fill (although this varied considerably in different parts of the economy). Fast forward to 2021 and, according to the Skills Network, management skills are the second most in-demand skill across the UK.

Management skills are not a 'nice to have' – and they're not only for managers or aspiring managers. Skills like planning and organisation skills, communication, team working and problem solving are critical to labour market success, whatever age or stage you are at in your career. Management skills can also be the bridge that helps to translate existing experience into new roles and responsibilities – vital for up- and re-skilling.

Employers are not prepared to pay for it

The benefit is not just for individuals. Despite considerable evidence demonstrating the link between good management and business productivity, profitability, resilience and innovation, employers aren't willing enough to put their money where their mouth is. This is largely because of a tendency among employers to focus on short- over longer-term needs and – as the Skills and Productivity Board identified recently – because the transferability of management skills provide weak incentives for employers to invest compared to firm-specific skills (Understand Current and Future Skills Needs, Skills Productivity Board, 2022).

Apprenticeship Levy is tackling employer short-termism over management training

The temptation amongst employers to focus on immediate challenges over longer-term, structural weaknesses is why the Apprenticeship Levy system was introduced. And whatever the wider challenges with the levy, it has been successful at driving up management training and capabilities.

The businesses that make use of this training are benefitting. For example, at small manufacturing business Diamond Hard Surfaces Ltd, innovations identified as part of a management apprenticeship enabled the company to grow by 60% in 2020-21.

The Apprenticeship Levy has also – despite popular misconceptions – been a positive force for social mobility. In a recent survey of CMI management apprentices, 71% came from families where neither parent went to university.

Through the apprenticeship system, Travis Perkins, for example, has become so effective at utilising apprenticeships that competitors now use them to deliver training to their own apprentices.

But others – mostly big businesses – have fought back against this forced engagement, complaining the apprenticeship system is preventing them from addressing wider skills and training priorities. And yet, CBI research shows that 19% of levy-payers say the levy has increased their investment in non-apprenticeship training, and 60% say non-apprenticeship training investment has remained the same.

Skin in the game has proved to be critical in making the case for employer investment. Without an upfront cost towards longer term/higher quality training, employers save in the short term – but they will pay for it in the long run through diminished productivity, innovative capacity and ultimately competitive advantage.

Employers are already feeling the pinch when unable to fill skills gap vacancies – 94% said that their skills gaps had a negative impact on business performance. The apprenticeship system has to deliver not just for short term employer specific skills, but for the skills needs of sectors and industries into the long term.

Employer investment in longer duration training

Structural issues won't be resolved by a day training course and there are greater productivity gains from higher level and more intensive training. What is needed is a future-focused programme of upskilling and development with significant employer buy-in. Countries such as Sweden, Germany, Switzerland have coordination bodies supported/convened by employers in recognition of the importance of delivering against long term training needs. The challenge in the UK is how to secure employer buy-in for this approach, building on the Apprenticeship Levy.

Recommendation 1

Management apprenticeships at all ages and stages should continue to be funded out of the Apprenticeship Levy. The levy system has been highly effective at driving take up of management training amongst businesses that pay it. Consideration should be given to reducing the £3m pay-roll threshold so medium-sized employers come within scope of the levy, with funds used only on high quality longer-term skills interventions (accompanied by wrap-around advice and guidance and/or wage subsidies for under-represented businesses or individuals).

Recommendation 2

Uplifting management capability should be at the heart of major national and sub-national policy priorities including increasing productivity, green transition, public service transformation, regional growth and innovation.

Recommendation 3

Management training should be considered alongside other productivity-enhancing skills provision. Given its applicability across so many job roles and areas of the economy, management should be considered a strategic priority and core skill alongside emerging and priority industries such as digital and green skills. This will require dedicated funding and incentives.

Part Four
Raising employer demand for publicly funded post-16 education and skills

Jane Hickie, Chief Executive, AELP

Increasing employer demand for post-16 apprenticeships in England

We know that apprenticeships are great for learners of all ages and all levels. There is also significant demand from employers for apprentices, so supporting them to be able to employ apprentices must be at the heart of any strategy to deal with the country's skills shortages. It is without question that the most effective way to do this is to ensure much more is done to allow young people, entry-level learners, and small and medium sized employers (SMEs) to access apprenticeships more easily.

SMEs face significant barriers to accessing the apprenticeship system, but they are the businesses which historically have supported the majority of apprenticeships. Large employers unquestionably play their part, but the system needs to work for employers of all sizes, apprentices themselves and the wider economy. That is why measures to increase employer demand should focus on three main areas – protecting the Apprenticeship Levy, more targeted support for SMEs, and simplifying the system to reduce bureaucracy.

Protect the Apprenticeship Levy, but refine the wider system

The best skills systems around the world are employer-led, and a shift away from an institutional-led approach is a key principle that we support across the post-16 education system. The apprenticeship reforms – including the introduction of the levy – were designed to shift skills training towards an employer-led system. By nearly doubling investment into apprenticeships, the Apprenticeship Levy has been a real game-changer – apprenticeship funding is set to reach £2.7 billion by 2024-25.

Recently we have seen some misguided calls to reform the levy itself on that basis that it is not working. But the fact that the levy underspend is down to just £11m last year, from a budget of £2.5 billion – and therefore, a less than 1% underspend – proves that it is being used by employers. Focusing on watering down the levy is a simple distraction when it is the wider levy system that needs some adjustments.

Wider reform could help more SMEs access the system. Making it easier for larger firms to transfer their funds to smaller employers is just one example of reducing current friction that would help stimulate demand. However, one thing is key – there should be no change that shifts the levy away from investment in apprenticeship training and assessment only.

Accelerating the simplification project

The unnecessary burden placed on employers through bureaucracy is still a huge barrier for employers – particularly SMEs. We know that non-levy paying employers find it hard to navigate and access the apprenticeship system and that is clearly having an impact on take-up. This is why we are working closely with the Department for Education on their project to simplify the apprenticeship system, but we need to accelerate that project so that as much of that bureaucracy as possible is a thing of the past.

There are two obvious ways we can make progress on this. Firstly, we've previously called for an auto-enrolment system for employers on the apprenticeship service, which would go some way to reducing the administrative burden involved in getting started. Secondly, the apprenticeship funding rules themselves need to be urgently reviewed – these have gone from 50 pages to over 140 in recent years and have become too iterative. Obviously, we must have the right measures in place to ensure providers are accountable when receiving public money – but there must be a way to prevent this situation of overly bureaucratic rules.

Increasing support for smaller businesses to take on apprentices

The incentives made available through the Government's Plan for Jobs were a fantastic success. Figures from December 2022 showed that close to 200,000 new jobs were supported – and 77% of these were for 16-24-year-olds. Interest from non-levy paying employers was also very strong during this period, with new vacancies on the Find an Apprenticeship system at an all-time high.

These types of cash incentives give employers the flexibility to choose how they invest that grant, whether as an indirect wage subsidy or investment in infrastructure to support the apprentice. To get the best value out of financial incentives, these must be targeted at smaller employers.

Apprenticeships remain the only part of the education system where 16-18 year olds are not fully funded by the state.

Along with other sector stakeholders, we believe that the current 5% employer co-investment should be waived for all non-levy paying employers, not just micro employers and should be funded from the Department for Education's 16-19 budget.

Increasing employer demand for post-16 apprenticeships will be vital if we're to fill skills shortages across England.

Recommendation 1

The Apprenticeship Levy should be used to fund apprenticeships only, with the system refined to help more SMEs access apprenticeships.

Recommendation 2

The 5% co-investment requirement for non-levy paying employers should be abolished across the board.

Recommendation 3

Additional support targeted at smaller businesses wishing to take on an apprentice should be made available over and above the 2024/25 budget of £2.7bn.

Mandy Crawford-Lee, Chief Executive, UVAC

Increasing employer demand for level 4-5 technical education in England

The case that employers in the UK invest too little in the training and development of their new and existing employers is established.

In 2022, the Learning and Work Institute reported that the amount employers invest in training per employee had fallen by 28% since 2005 and that UK employers only invest half the EU average per worker (Raising the Bar Increasing Employer Investment in Skills, 2022).

Prior to the pandemic in 2019, DfE noted that, 'higher technical education uptake is low in England. Only 10% of adults aged 18-65 hold a Level 4-5 qualification as their highest, compared to around 20% of adults in Germany and as much as 34% in Canada' (Higher Technical Education: the current system and case for change, 2019).

If we are to increase employer demand for higher technical education, we must address the following issues.

Agreeing who pays for what and that employers should pay

There are three beneficiaries from investment in higher technical education: individuals benefit in terms of potential salary returns and promotion, employers benefit from potential increases in productivity, and the nation benefits from a more productive workforce that earns more, pays more tax and in the public sector delivers better public sector services.

The trouble we have here is that under successive governments, the respective financial contributions that individuals, employers, and the state make to the cost of training and education provision has never been properly agreed or established with certainty in policy terms.

This is most recently exemplified in proposals for the introduction of the Lifelong Loan Entitlement (LLE). There is much to commend in LLE proposals that support individuals to use a loan entitlement to access modular, flexible, and full-time higher technical education and Level 6 provision throughout their life. Rightly, in the development of proposals for the LLE, government has focused on the relevance of provision to employers and skills needs.

What is missing, however, is consideration of what employers should pay for, and whether and how employers should financially contribute to such provision. If an employer can expect individuals to use government-backed loans to develop and even update the higher technical skills needed in a specific occupation, what is the incentive for the employer to invest?

We also need to challenge the behaviour of some employers and a culture that places too much focus on short-term returns rather than long-term investment. Government should revisit the proposal that employers over a certain size should be required to publish how much they invest in the training and development of their workforce.

Establishing and promoting the case for investing in higher technical education

The case for investing in higher technical education has frequently been presented as England invests substantially less than our OECD competitors. But, so what? We train lots of graduates.

A convincing case based on the tangible benefits for both employers and individuals of higher technical education in specific occupations is needed. The IfATE would be ideally placed to do this. Care, however, needs to be taken in promoting higher technical education as an alternative to bachelor's degrees. The NHS, for example, certainly needs to train more Nursing Associates (a Level 5 higher technical occupation), but it also needs to recruit and train more Registered Nurses (a Level 6-degree occupation). Higher Technical Qualifications (HTQs) will be valuable in their own right, but will also in many cases be a useful staging point in progression to a degree and degree level occupation and/or professional qualification.

Delivering the higher technical education programmes employers need

Through its quality mark process, the IfATE is ideally placed to identify the HTQs which deliver the knowledge, skills and behaviours needed for specific occupations. What is also needed is action to support and encourage providers to offer and deliver higher technical education. Funding to support development and growth will undoubtedly help, as will (from September 2023) making HTQ courses eligible for the part-time maintenance loans on the same basis as degree courses.

But action elsewhere is also needed. As part of the rolling process to approve HTQs for specific sectors and occupations, IfATE should publish guidance on future labour market trends and the potential demand for HTQs, as well as how HTQs should be considered in Local Skills Improvement Plans (LSIP). In considering the overall direction of the FE and HE sectors, ESFA, Ofsted, IfATE, and OfS may also want to consider action to ensure that the skills sector plays an appropriate role in delivering the HTQs which employers, individuals and the economy need.

Recommendation 1

At the Spring Budget, the Government should announce a review to determine the principles of who pays and for what in terms of post-18 education and training, including Level 4-5 higher technical education.

Recommendation 2

IfATE must ensure that the Level 4-5 higher technical qualifications needed to raise productivity are available to employers. England now has a highly competent organisation in the form of IfATE that can ensure that higher technical qualifications, that meet employer skills requirements, are quality marked. What is also needed is further action to support and ensure the HTQs employers and the economy needs are available for delivery.

Recommendation 3

DfE must develop and promote the HTQ brand. Higher technical education has for decades been totally overshadowed by bachelor's degrees. If the benefits to individuals and employers of HTQs, on an occupational basis, are clearly identified and linked to the HTQ brand, then we could see significant growth. The degree apprenticeship brand has developed over a number of years to where it is very highly regarded and prestigious. With a careful steer from the IfATE, HTQs – which are based on employer developed apprenticeship standards like degree apprenticeships – could develop in the same way.

Ian Pryce, Chief Executive, The Bedford College Group

Increasing employer demand for higher technical education and training in England

Henry Ford is perhaps the most eloquent champion of the power of staff development. He is famously quoted as saying, “the only thing worse than training your employees and having them leave, is not training them and having them stay”.

Ford also assumed that once trained, employees are ungrateful. But here Ford was wrong. Evidence suggests staff training increases loyalty – a real win-win.

Lost messages

Sadly, these messages are being lost on many of our employers. We know from the Learning and Work Institute that investment in training by employers in the UK has fallen by 28% per employee since 2025.

Perhaps unsurprisingly, the National Institute for Economic and Social Research has found that UK adjusted labour productivity between 2008– 2019 ran at an anaemic annual rate of 0.27%, compared to 0.7% in France and Germany, and 1% in the US.

Employer decision making

So, if staff development investment is such a good thing, why are employers so reluctant to embrace it, and how can we encourage increased employer demand for training and education, especially demand for higher technical education where the skills gaps are most acute?

Perhaps the best starting point is to consider how decisions are made. When a business considers investing in its staff, it will go through the same decision process as it would for capital investment, R&D and innovation. What is it looking to achieve? How much should it invest? Is it affordable? How much return will it get?

Drivers of employer investment

When looking at what it wants to achieve, the nature of an organisation can be important. Private organisations generally see return in terms of profit. Public service organisations see returns as more effective, efficient or economic services.

Data from the Office for National Statistics shows average profit margins of between 9% for manufacturing and 14% for service industries. Investment in training therefore needs a clear link to improved profit, with knowledge gained being applied immediately to profitable effect.

Size of employers

Many large professional firms have a long tradition of high-level management development programmes, often in-house. If they are satisfied with that investment, new initiatives might be exploited to reduce the costs of existing activity.

Data for UK companies shows most private employers are tiny – not much bigger than a traditional family – and as such, are unlikely to have regular major development programmes.

Employer investment in training and employment duration

Return on investment partly depends on the duration of employment. Data for UK companies shows the average worker spends less than five years with an employer, so returns have to be swift and sure.

Existing employer investment linked to immediate need

The pressure to link investment in training by employers to either profitability or improved service delivery, and the average duration of employment of less than five years, means employer investment in training is unsurprisingly focused on immediate impact and business improvement.

Employer wins are actually at Level 2 and below

For colleges such as Bedford, employers see quick wins from lower-level training like language proficiency (ESOL and Basic English), mathematical competence (maths to Level 2), and computer literacy (use of common applications like Microsoft). The benefits to businesses from technical education at Level 3-5 take longer to come through.

Increasing employer demand at Level 3-5 technical education

Increasing employer demand for higher level technical education requires helping employers to stay the course to allow the benefits to their business in improved productivity, profitability and service to materialise.

Alternatively, employers should assist their staff to organise their own education and training to improve staff loyalty and retention. Employers must ensure training can easily sit alongside work, and preferably incorporate workplace activity.

Maximising employer engagement in apprenticeships

The average age of a UK employee is 41, and so it seems unlikely that employers will want to use funds for apprenticeship training in their digital account to primarily train 16-18 year-olds. An all-age apprenticeship programme is appropriate from the perspective of employer demand.

The role of colleges

If colleges are to meet the skill demands of employers and even stimulate employer skill demand, we must recognise the role of profitability and service delivery.

Colleges, working with universities, must improve the curriculum offer and have the power to accredit higher education qualifications and developing their own qualifications at Level 4-6. Level 4-6 qualifications must be sufficiently flexible to enable employers to support their employees to invest their time to achieve them.

Wider interest

It is in the interest of our institutions, communities and national economy that we see this as a big part of our agenda. Selfishly, it makes sense to develop relationships in this way, as repeat business is much easier than new business.

Henry Ford famously added, "businesses that grow by development and improvement do not die" – and neither will those training organisations that help them.

Recommendation 1

Government skills policy must be grounded more deeply in the link between business development and employer investment in training.

Recommendation 2

Employers should receive incentives to enable their employees to participate in long duration higher technical education at Level 3-5 – where the benefits to businesses take longer to materialise – and employers should be encouraged to use apprenticeship funding through digital accounts for adults on Level 4-7 apprenticeships.

Recommendation 3

Colleges and universities should celebrate the success of the employers with whom they work, not just the qualification successes of their staff.

Part Five
Raising employer demand for work placements

John Widdowson, Board Member, NCG

Increasing employer demand for work placements for level 3-5 vocational courses in England

Work placement has been an essential element in vocational courses for many years. The presence of work placement should hardly be surprising given the importance of applying what has been learned in the classroom in real life situations. Although many education and training providers have excellent realistic work environments – such as training restaurants, hair salons and construction facilities – nothing can really simulate the rewards and pressures of the workplace.

Full-time 16-19 Level 3 T Levels: A central role for work placement

Many vocational courses up to Level 3 contain work placement opportunities, but these are usually short – two weeks being common – and seldom fully integrated into the learning programme.

Indeed, such is the value attached to work placement, that it has been given a central role in the new T Levels at Level 3, offering a high quality technical alternative to GCE A Levels. In addition to what is learned off the job, students must complete a minimum of 315 and a maximum of 420 hours of work placement as an essential part of their qualification. Although some variations have been permitted for a proportion of home working in certain industries, effective work placements lie at the heart of high quality vocational and technical qualifications.

In undertaking a placement, students are intended to gain a practical insight into their chosen sector and embed the knowledge and skills learned in the educational setting off the job. From an employer perspective, hosting a work placement gives the opportunity to assess the suitability of a student for employment. Perhaps a neglected area in considering the added value of placements is recognising the role it can play developing the personal skills valued by employers.

Where a T Level placement works well for both employer and student, an offer of permanent employment will often ensue. This can raise issues for providers if this happens mid-course, as the student will be recorded as unsuccessful despite progressing to a job in their chosen field. Even if they continue on a related apprenticeship, T Levels are designed for full time study with no option to complete part time.

Full-time Level 4-5 HTQs: part-time work and a work placement?

Beyond Level 3, the picture is less clear. Full time students on some Level 6 degree programmes enjoy extensive periods of work placement. For example, students aspiring to become social workers or to qualify in professions linked to medical disciplines such as nursing or podiatry must undertake work placements, not only as an essential part of their qualification, but to also face assessment in the workplace before they can become qualified to practice.

Despite the value attached to Higher Technical Qualifications (HTQs) by employers, few foundation degrees or higher national qualifications require a compulsory and protracted work placement. However, FE colleges offering these qualifications report high levels of part-time employment as students seek to offset the costs of study by working, largely in service sector occupations. In almost all cases, those jobs are unrelated to the subject being studied.

Nevertheless, in addition to generating essential income, students also develop many of the skills valued by employers such as team work, interpersonal skills and above all, resilience – balancing study with work and in many cases, family and caring responsibilities.

Alongside the introduction of more T Levels, there is a renewed focus on Higher Technical Qualifications. The demand for work placements will increase enormously, at a time when employers are under great pressure to recruit and retain the people they need to run their businesses. Providing work placements may be seen as yet another demand on time and resources in short supply. Education providers and employers will have to find new and creative ways to ensure that these demands can be met and that employers see providing work placements as an opportunity, not a burden.

Creative partnerships between providers and employers

There are several examples from current practice of how this might be done. In some cases, work placement students have been sent to take the place of apprentices as they complete the off-the-job element of their programme. In others, placements have been timed to coincide with times of high demand, for example in the hospitality industry. Conversely, other placements have been timed to reflect the seasonality of some businesses, with students being sent into the workplace during quieter periods, when employers have the time to give them the attention and support they need.

Recommendation 1

Validating bodies and the Institute for Apprenticeships and Technical Education (IfATE) should consider means of bringing the T Level and apprenticeship routes closer together, facilitating transfer between routes as individual careers develop.

Recommendation 2

Providers of Higher Technical Qualifications (HTQs) should recognise the value of part-time employment in developing many of the skills valued by employers, preferably seeking to incorporate those experiences in course assessment and student evaluation. Where possible, part-time employers should be involved directly.

Recommendation 3

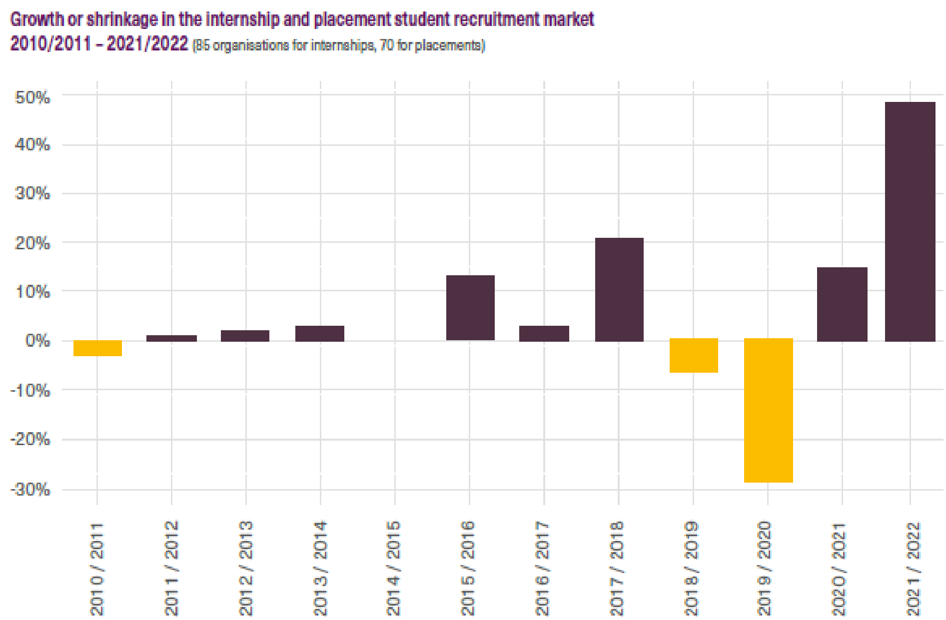
Employers and providers should work closely together to embed work placement in programmes of study, reflecting the needs of both providers and employers. Placements should be timed to reflect the patterns of business and industry rather than traditional academic years.

Stephen Isherwood, Joint Chief Executive, Institute of Student Employers

Increasing employer demand for undergraduate work placements in England

Only the financial crash and Covid-19 dented employers' appetite for internships, placements and other short-term programmes (Figure 1). In the long-run, employers have significantly increased the number of undergraduate work placement programmes they run. But why? Surely placements are expensive to manage, take up precious business time and clutter up the workplace with inexperienced and immature students.

Figure 1



Source: ISE Recruitment Survey 2022 and ISE Development Survey 2022

Return on investment for work placements

There are four reasons employers continue to invest in placements.

Employers often hire placement students into full-time graduate positions. Assuming the hires are high caliber, the employer has reached and recruited a pool of talent ahead of their competitors. Our goal is "to secure talent as early as possible", said one employer in a recent ISE survey.

Placement students make better hires than those without prior experience of the employer. When we asked ISE employer members about their hiring methods, the vast majority (64%) said that students who had completed a work experience placement arrived with better skills and attitudes compared to other students.

Placement cohorts are more diverse that graduate cohorts. Placement programmes often form part of an employer's diversity strategy. Placement programmes give employers the opportunity to target students they historically struggle to attract and provide a route onto full-time graduate routes.

Placements students can enhance an employer's brand. Those who have a good employment experience return to campus as brand ambassadors for their employer. But employers are also aware that students who have a bad placement experience can damage their brand – a bad programme is worse than no programme at all.

Work placement vacancies bounce back

Covid-19 did impact how many opportunities employers offered and how employers structured their programmes. This had two significant impacts on students. Firstly, because there was an overall decline in roles in 2020, a segment of students has not had the work experience they otherwise would have. Secondly, we have seen a longer-term shift to virtual or hybrid placements.

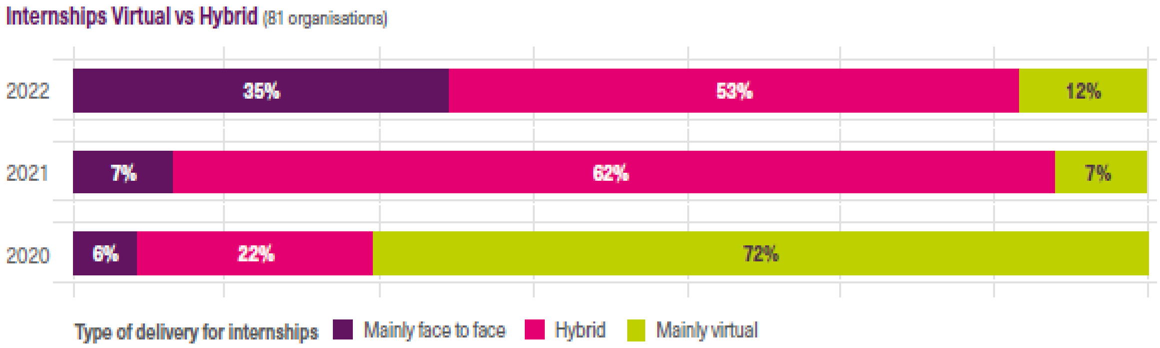
Levels of vacancies have bounced back significantly and are now at pre-pandemic levels (see Figure 1).

Some sectors have increased hiring more dramatically than others. Employers in the built environment sector increased vacancies by 47%, in the energy and engineering sector by 39%, and in the retail sector by31% in 2022 compared to 2021. No sector reduced hiring.

Hybrid programmes are here to stay

Over half (Figure 2) of placements are now hybrid – a mix of online and in person working. The face-to-face internship has returned, but now accounts for only a third of programmes. Virtually delivered programmes have shrunk back to 12% from 72% in 2020.

Figure 2

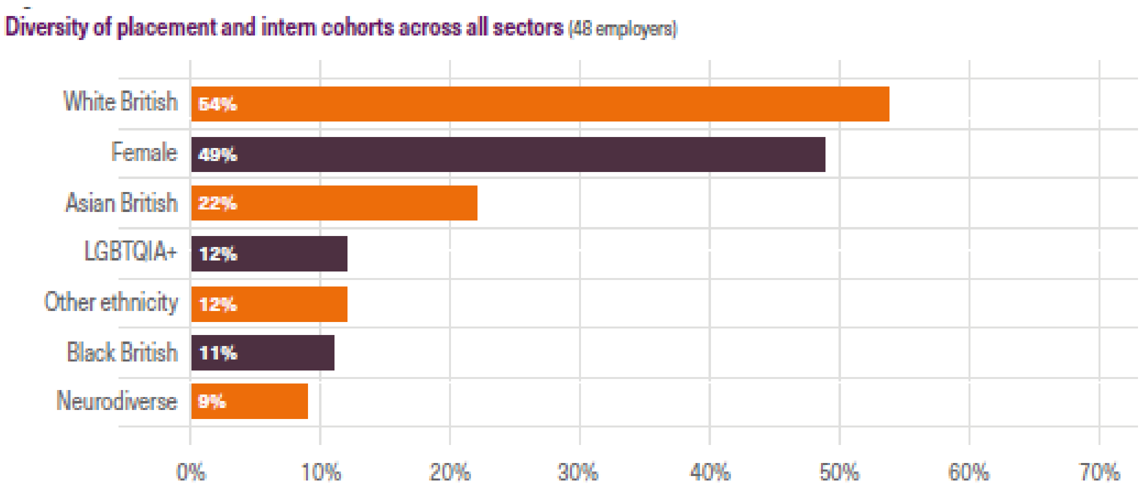


Source: ISE Recruitment Survey 2022 and ISE Development Survey 2022

Hybrid working in the broader labour market has probably altered the way placements are delivered for good. When compiling our most recent development report, we found that employers now see hybrid working as a skill they seek in all student hires. Hybrid programmes reflect the reality of working life and support placement students to develop in-person and online skills in a way that working solely in the office or from home can't. Placements are a route to greater recruitment diversity.

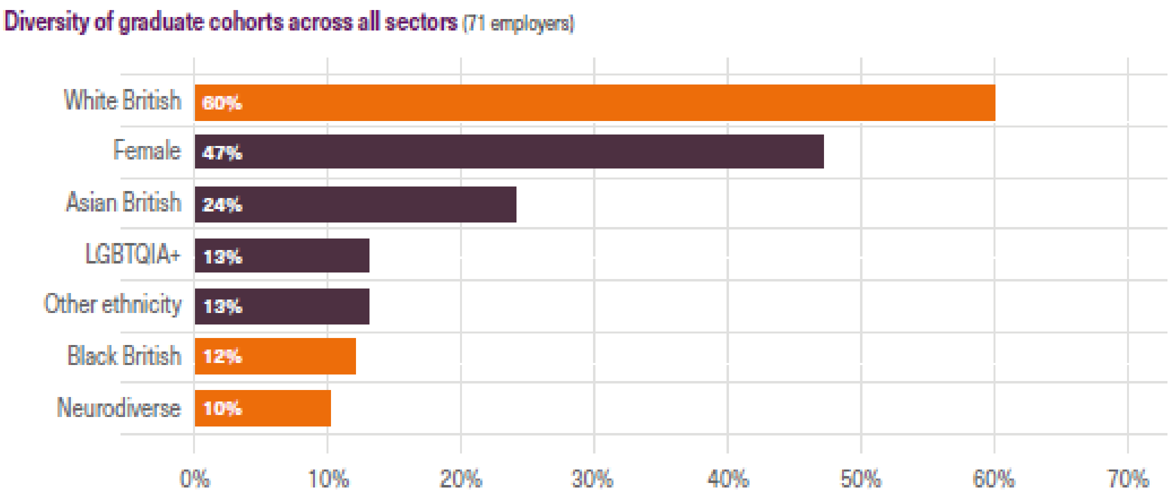
Employers see placement programmes as an opportunity to target and work with students from diverse backgrounds. A third of ISE employer members offer programmes for specific diversity groups. As a result, placement cohorts are often more diverse than graduate recruitment intakes (Figures 3 and 4).

Figure 3



Source: ISE Recruitment Survey 2022 and ISE Development Survey 2022

Figure 4



Source: ISE Recruitment Survey 2022 and ISE Development Survey 2022

How to increase employer demand for placements

There are still far fewer placement vacancies than there are graduate vacancies. This will always be the case, as placements take resources to manage, and employers don't always have work that suits the placement model. But in the interests of students and employers, we should maximise the number and quality of opportunities available.

Recommendation 1

Hybrid placements offer a greater flexibility in location and working patterns for students and the employer. New delivery mechanisms such as Forage's pre-skilling approach are changing the way employers approach placement delivery. The University of York has been particularly successful setting up virtual internships.

Recommendation 2

The HE sector needs to educate more SME employers about work placements.

Recommendation 3

Employers and the HE sector need to work together to diversify placements.

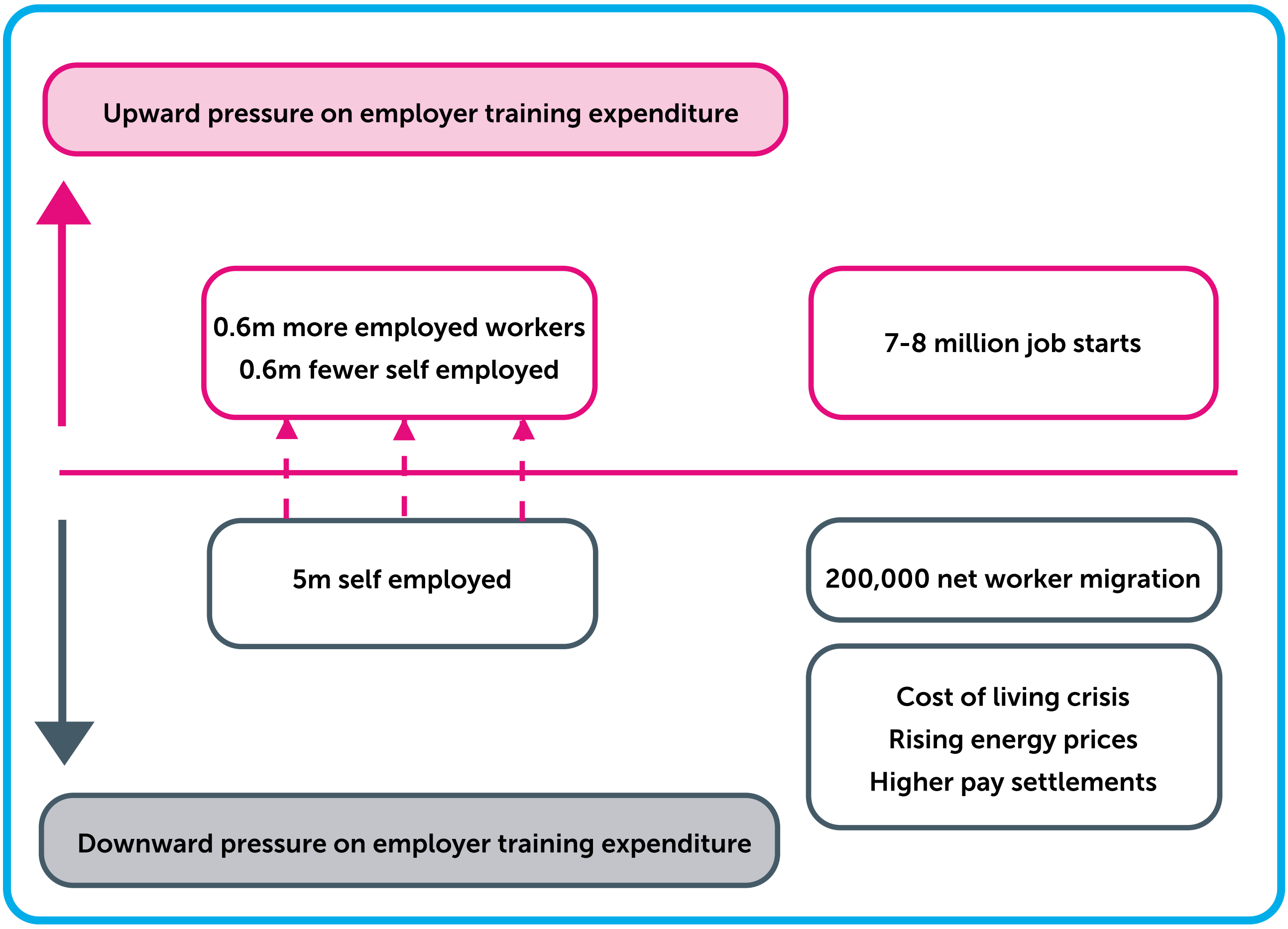
Campaign for Learning

Key Messages
Mark Corney, Campaign for Learning

We need to view employer expenditure on training in the context of 3 big shocks to the economy

The economy has suffered three big shocks since 2016: firstly, the decision to leave the European Union in June 2016 and the transition period ending on 31st December 2020; second, the Covid-19 pandemic between March 2020 and July 2021; and third, the start of the Russia-Ukraine War in February 2022, causing worldwide inflation and a domestic cost-of-living crisis. Rising energy prices and wage settlements may have placed downward pressure on employer training expenditure (see Diagram 1).

Diagram 1



We need to view employer expenditure on training in the context of a dynamic labour market and net worker migration

7-8m job starts

The UK has a dynamic labour market. There are between 7-8m job starts in the labour market each year, equivalent to 20-25% of the workforce (see Table 1). This places upward pressure on employer spending on training, especially health and safety and induction training (see Diagram 1). It also provides the backdrop to decisions by employers to recruit skilled workers from the external labour market relative to upskilling and reskilling their internal workforce.

Table 1: Employment Flows - 2022

2022	Unemployment to Employment	Inactivity to Employment	Job to Job (1)	Total
January-March 2022	0.465m	0.655m	0.897m	
April-June 2022	0.412m	0.551m	0.948m	
July-September 2022	0.379	0.589m	0.964m	
October-December 2022	0.384m	0.634m	0.871m	
Total	1.640m	2.429m	3.662m	7.731m

Job to job flows refer to those who employed in July-September compared to April to June but reported that they had been with their current employer for less than three months, indicating a job change between the quarters.

Source: ONS https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/employmentandemployeetypes/datasets/labourforcesurveyflowsestimatesx02

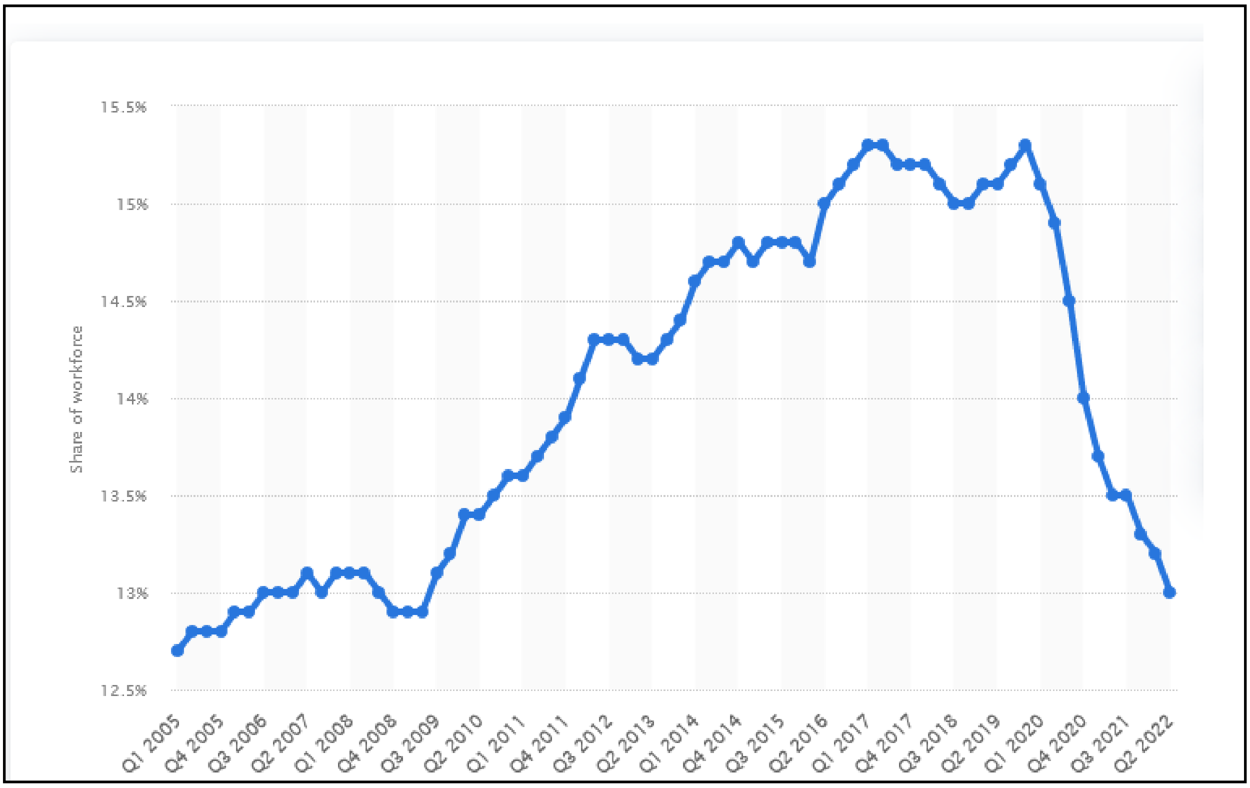
20% of the workforce in flexible employment

Roughly 20% of the workforce are self-employed, temporary workers, or in employment with low or zero-hour contracts. Although employers may fund training for temporary workers and workers on low or zero-hour contracts, they are not responsible for the training of the self-employed.

Shift back from self-employment to employment

The largest group in flexible employment is the self-employed. In the past, self-employment surpassed 5m and 15% of the workforce (see Box 1). Recently, however, there has been a shift back from self-employment to employment. This shift places upward pressure on employer expenditure on training, especially health and safety and induction training for new workers (see Diagram 1).

Box 1

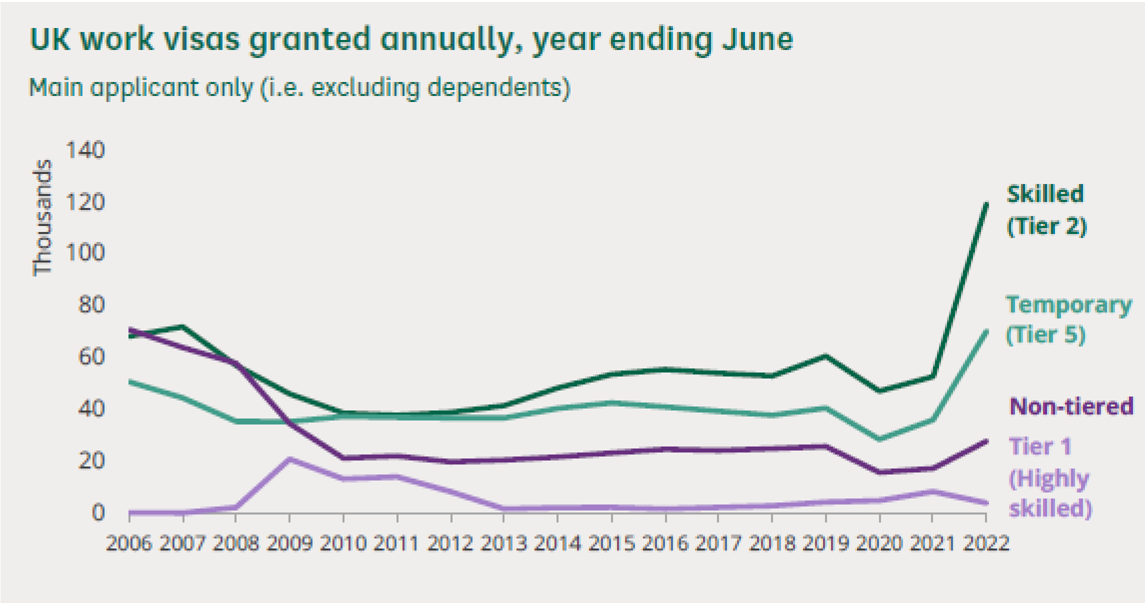


Source: Statista.com https://www.statista.com/statistics/318208/uk-self-employment-rate/

Net worker migration of 200,000

Since the UK introduced a new immigration policy from January 2021, net worker migration has reached 200,000 (see Box 2). Net worker migration places downward pressure on employer spending on training (see Diagram 1). Net worker migration is currently below the levels of when the UK was in the European Union and free movement of workers applied, but once again, this is a source of skilled labour for employers relative to upskilling and reskilling their internal workforce.

Box 2



Sources: Home Office, Immigration statistics quarterly June 2022; table Vis_D02
Notes: The data up to 2019 Q1 is from the previous version of the Immigration statistics quarterly report, last released June 2019. In this previous format, Tiers of visa also included their pre-tiered system equivalent.
In order to achieve continuity, the following categories in the current statistics have been aggregated:
* Tier 1 = 'Tier 1 (High value)', 'International Graduate Scheme', and 'ECAA Business Person';
* Tier 2 = 'Tier 2 (Skilled)', 'Ministers of religion or missionary', and 'Work Permit Holders';
* Tier 5 = 'Tier 5 (Youth mobility and temporary worker)', 'Working holidaymakers', 'Religious workers', and 'Private servants in Diplomatic Households';
* Non-tiered = 'Domestic workers in Private Households', 'Innovator', 'Start-up', 'UK Ancestry', 'Other permit free employment', and the 'Global Talent' and 'Frontier Worker' visas that started in 2020. Non-tiered mainly consists of Domestic workers in private households visas, which are valid for six months, and UK Ancestry visas, which are valid for 5 years.

Source: House of Commons Library - UK Parliament
https://commonslibrary.parliament.uk/research-briefings/sn06077/

We need a clearer picture of total employer expenditure on training

Employer expenditure on training can be divided into two parts: expenditure on general training provision and expenditure on apprenticeships.

Employer expenditure on general training provision in England

The latest estimate for expenditure on general training provision by employers in England is for 2019 at £39.2bn (see Box 3). This estimate includes training and wage costs (see Box 4) and is before the end of free movement of labour between the UK and the EU, the Covid-19 pandemic, and the cost-of-living crisis.

Box 3

Table 5-1 Total training expenditure and spend per trainee and per employee (2011 to 2019), in 2019 prices

	2015			2017			2019		
	Total	Per trainee	Per em-ployee	Total	Per trainee	Per em-ployee	Total	Per trainee	Per em-ployee
	£	£	£	£	£	£	£	£	£
Total	42.0bn	2.6k	1.7k	42.2bn	2.6k	1.6k	42.0bn	2.5k	1.5k
Country									
England	38.9bn	2.6k	1.7k	39.1bn	2.6k	1.6k	39.2bn	2.6k	1.5k
Northern Ire-land	1.0bn	2.1k	1.3k	1.1bn	2.4k	1.5k	1.1bn	2.2k	1.4k
Wales	2.1bn	2.8k	1.8k	2.1bn	2.9k	1.7k	1.7bn	2.1k	1.4k
Size									
2 to 4	5.7bn	6.1k	2.6k	5.9bn	5.7k	2.4k	5.2bn	5.5k	2.0k
5 to 24	12.9bn	3.8k	2.1k	13.3bn	3.8k	2.1k	12.5bn	3.6k	1.9k
25 to 49	5.8bn	2.8k	1.8k	6.4bn	3.1k	2.0k	6.0bn	2.9k	1.8k
50 to 99	5.9bn	2.8k	1.8k	5.0bn	2.3k	1.5k	5.7bn	2.5k	1.7k
100+	11.7bn	1.6k	1.1k	11.6bn	1.5k	1.0k	12.6bn	1.6k	1.1k
Sector									
Primary Sector & Utilities	1.1bn	3.8k	1.8k	1.0bn	3.0k	1.5k	0.9bn	2.5k	1.3k
Manufactur-ing	2.6bn	2.4k	1.2k	2.8bn	2.6k	1.3k	2.7bn	2.5k	1.2k
Construction	2.2bn	4.1k	2.1k	2.6bn	4.8k	2.4k	2.6bn	4.4k	2.1k
Wholesale & Retail	4.7bn	2.1k	1.1k	6.1bn	2.5k	1.5k	4.6bn	2.1k	1.1k
Hotels & Restaurants	2.9bn	2.6k	1.7k	3.0bn	2.5k	1.5k	2.7bn	2.1k	1.3k
Transport & Storage	1.3bn	2.1k	1.2k	1.4bn	2.3k	1.2k	1.4bn	2.1k	1.1k
Information & Comms	1.8bn	3.4k	1.8k	1.4bn	2.7k	1.5k	1.6bn	2.8k	1.5k
Financial Services	1.5bn	2.4k	1.7k	1.3bn	1.9k	1.4k	1.3bn	2.2k	1.5k
Business Services	9.3bn	3.5k	2.1k	9.4bn	3.2k	1.9k	11.4bn	3.8k	2.2k
Public Ad-min	1.8bn	2.0k	1.5k	1.9bn	2.9k	1.7k	1.7bn	2.1k	1.5k
Education	4.2bn	2.3k	1.7k	3.7bn	2.0k	1.5k	3.5bn	1.9k	1.4k
Health & So-cial Work	5.8bn	2.2k	1.7k	5.3bn	1.9k	1.5k	5.9bn	2.1k	1.6k
Arts & Other Services	2.6bn	3.7k	2.2k	2.2bn	3.0k	1.8k	1.7bn	2.4k	1.4k

Base: Establishments completing the Investment in Training study excluding Scotland (UK 2011: 10,345; 2013: 11,093; 2015: 11,549; 2017: 11,059; 2019: 10,255). Spends per trainee and employee to the nearest 10. See Table A.5.3 in Appendix A for base sizes

Source: ESS 2019 – Research Report, GSR, DfE, November 2020

Box 4

Table 5-2 Total training expenditure broken down by individual components (2011 to 2019), in 2019 prices

	2015		2017		2019	
Unweighted Base:	*11,549*		*11, 059*		*10,255*	
	£	%	£	%	£	%
Total training expenditure	*42.0bn*	100	*42.2bn*	100	*42.0bn*	100
Off-the-job training: total	*23.0bn*	55	*23.2bn*	55	*20.9bn*	50
Off-the-job training: Course-related: total	*19.9bn*	47	*19.9bn*	47	*17.5bn*	42
Trainee labour costs	*5.1bn*	12	*4.9bn*	12	*4.9bn*	12
Fees to external providers	*2.2bn*	5	*2.4bn*	6	*2.7bn*	7
On-site training centre	*3.6bn*	9	*3.3bn*	8	*2.0bn*	5
Off-site training centre (in the same company)	*0.7bn*	2	*0.7bn*	2	*0.6bn*	1
Training management	*7.7bn*	18	*7.9bn*	19	*6.6bn*	16
Non-training centre equipment and materials	*0.4bn*	1	*0.4bn*	1	*0.3bn*	1
Travel and subsistence	*0.4bn*	1	*0.4bn*	1	*0.4bn*	1
Levies minus grants	*-0.2bn*	-*	*-0.2bn*	-*	*-0.05bn*	-*
Off-the-job training: other (seminars, workshops etc.): total	*3.1bn*	7	*3.3bn*	8	*3.4bn*	8
Trainee labour costs	*2.2bn*	5	*2.3bn*	6	*2.4bn*	6
Fees to external providers	*0.8bn*	2	*0.9bn*	2	*0.9bn*	2
On-the-job training: total	*19.0bn*	45	*19.0bn*	45	*21.1bn*	50
Trainee labour costs	*11.7bn*	28	*11.9bn*	28	*13.4bn*	32
Trainers' labour costs	*7.3bn*	17	*7.1bn*	17	*7.8bn*	18

Source: ESS 2019 – Research Report, GSR, DfE, November 2020

Employer expenditure on apprenticeships in England

In 2019/20, DfE funding on apprenticeships in 2019 – including top-ups, support costs and incentives – was £1.9bn, funded through the UK Apprenticeship Levy. Employers, especially levy payers, say funding for apprenticeships is their money. Yet, Government says it is theirs, because apprenticeship funding is actually public spending.

Less controversial is the fact that employers – private, public and voluntary – pay the wage costs of apprentices, although there is no official estimate of the apprenticeship wage bill to employers. A cautious back-of-the-envelope estimate is c£5.9bn, based on:

- 719,000 people participating in apprenticeships in academic year 2019/20.
- A median average weekly wage for Level 2 and 3 apprentices of £271 in 2018/19, and
- A 58.7% retention rate on apprenticeships.

Overall, therefore, total employer expenditure on apprenticeships in England in 2019/20 – including provision costs and wage costs – might have been c£7.8bn.

Estimated total employer expenditure on training in England

In 2019/20, employers in England potentially spent **c£47bn** on general training and apprenticeship training, including the cost of provision and wages.

Inclusive or exclusive estimates?

It is unclear whether the ESS 2019 estimate (see Box 3 and Box 4) is inclusive or exclusive of spending on training and wage costs linked to apprenticeships. This needs clarification, but we use both the £39bn and £47bn estimates for England in this pamphlet.

Employer expenditure on training in England was a large share of UK GDP in 2019

In 2019, employer expenditure on general training provision was £39.2bn. As such, employer expenditure on general training provision in England was equivalent to **1.8%** of UK GDP. Employer expenditure on training – excluding apprenticeships in England – was equivalent to the UK wide MoD budget in 2019/20.

On the basis that employer spending on apprenticeships is not included in the ESS estimate, total employer expenditure on general training and apprenticeships (including wage and provision costs) was c£47bn in 2019. Overall, therefore, employer expenditure on general training and apprenticeship training in 2019 was equivalent to **2.1%** of UK GDP.

Employer expenditure on training was about 11% of total capital investment in 2018

Capital investment covers spending on physical assets – buildings, machinery and equipment – research and development, and intellectual property. There are three sources of capital investment: government, households and employers. In 2018, total investment in the UK was c£400bn (Giles Wilkes, Business Investment – Not Just One Big Problem, Institute for Government, August 2022).

Employer expenditure on training in England, Wales and Northern Ireland in 2019 was £42bn and maybe £45bn in the UK, if Scotland is included. As such, employer expenditure on general training in the UK in 2019 was equivalent to 11% of capital investment.

Employer expenditure on training was about the same as investment in R&D in 2019

In 2019, research and development performed by UK businesses was c£42bn. Therefore, business spending on R&D was about the same as employer expenditure on general training which was about £45bn in 2019.

We need to view employer expenditure on training and capital investment in the round

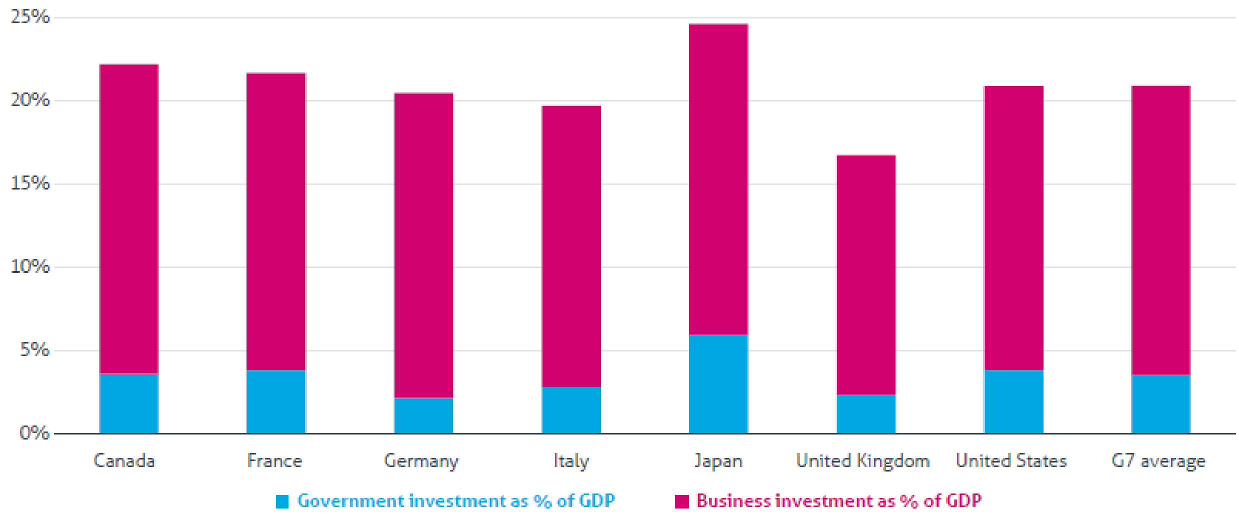
Estimates of employer expenditure on general training are only available until 2019. Comparisons with capital investment are restricted to the period to 2019.

Poor at total investment, very poor at business investment

Total investment in the UK in 2017 was 16% of GDP. This was significantly lower than the US (19%), Germany (20%) and Japan (22%). If the UK is poor at levels of total investment compared to major competitors, it is very poor at business investment (see Box 5).

Box 5

Figure 4 **Government vs non-government investment as share of GDP (2017)**



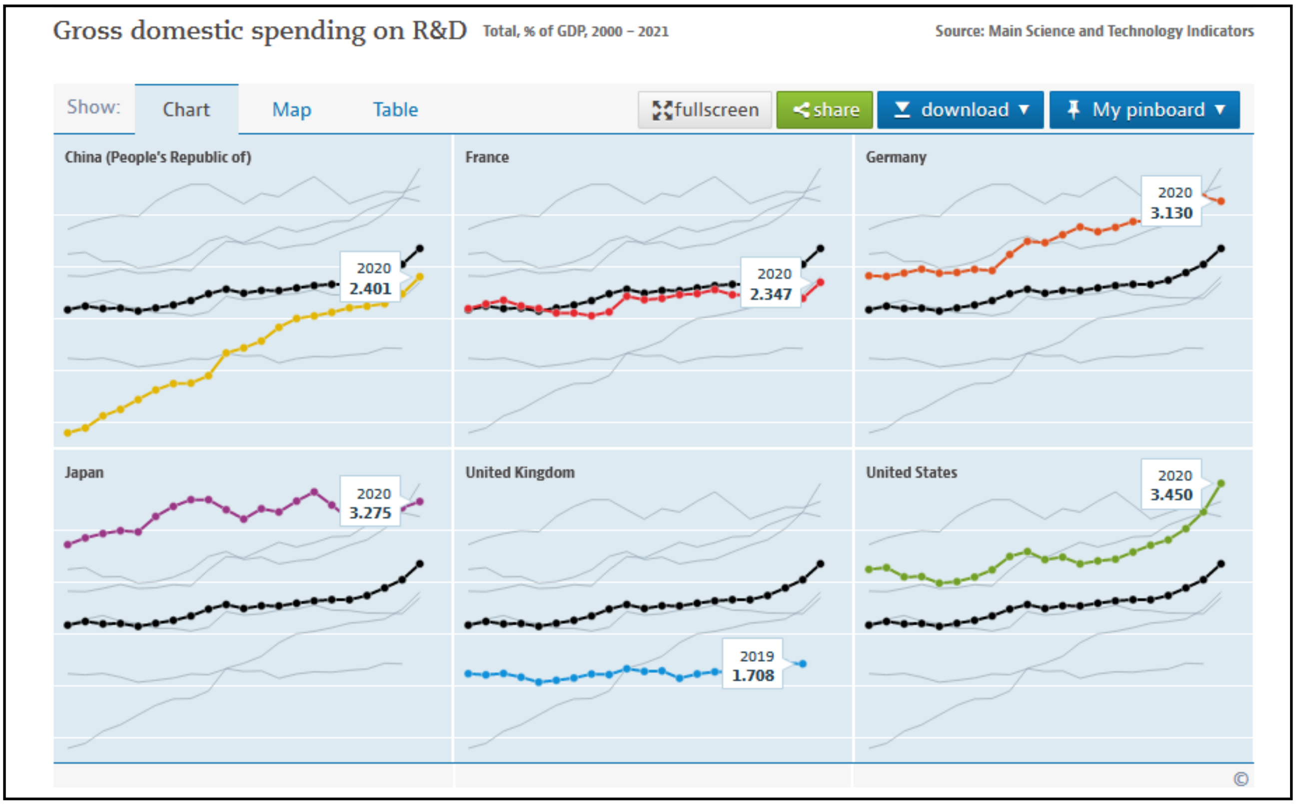
Source: Office for National Statistics.

Source: Institute for Government
https://www.instituteforgovernment.org.uk/publication/report/business-investment

Poor at domestic spending on R&D

OECD data indicates that domestic spending on research and development by the UK was lower as a share of GDP than comparable industrialised nations (https://data.oecd.org/rd/gross-domestic-spending-on-r-d.htm). Whilst the UK spent 1.7% of GDP on R&D in 2019, the US spent 3.45% in 2020, Japan spent 3.3%, Germany 3.1% and France 2.4% also in 2020 (see Box 6).

Box 6



Source: [OECD https://data.oecd.org/rd/gross-domestic-spending-on-r-d.htm](https://data.oecd.org/rd/gross-domestic-spending-on-r-d.htm)

Stalled business investment which affects productivity

The Bank of England has recently focused on business investment which affects productivity. Between 2015 and 2019, business investment affecting productivity effectively stalled (see Box 7).

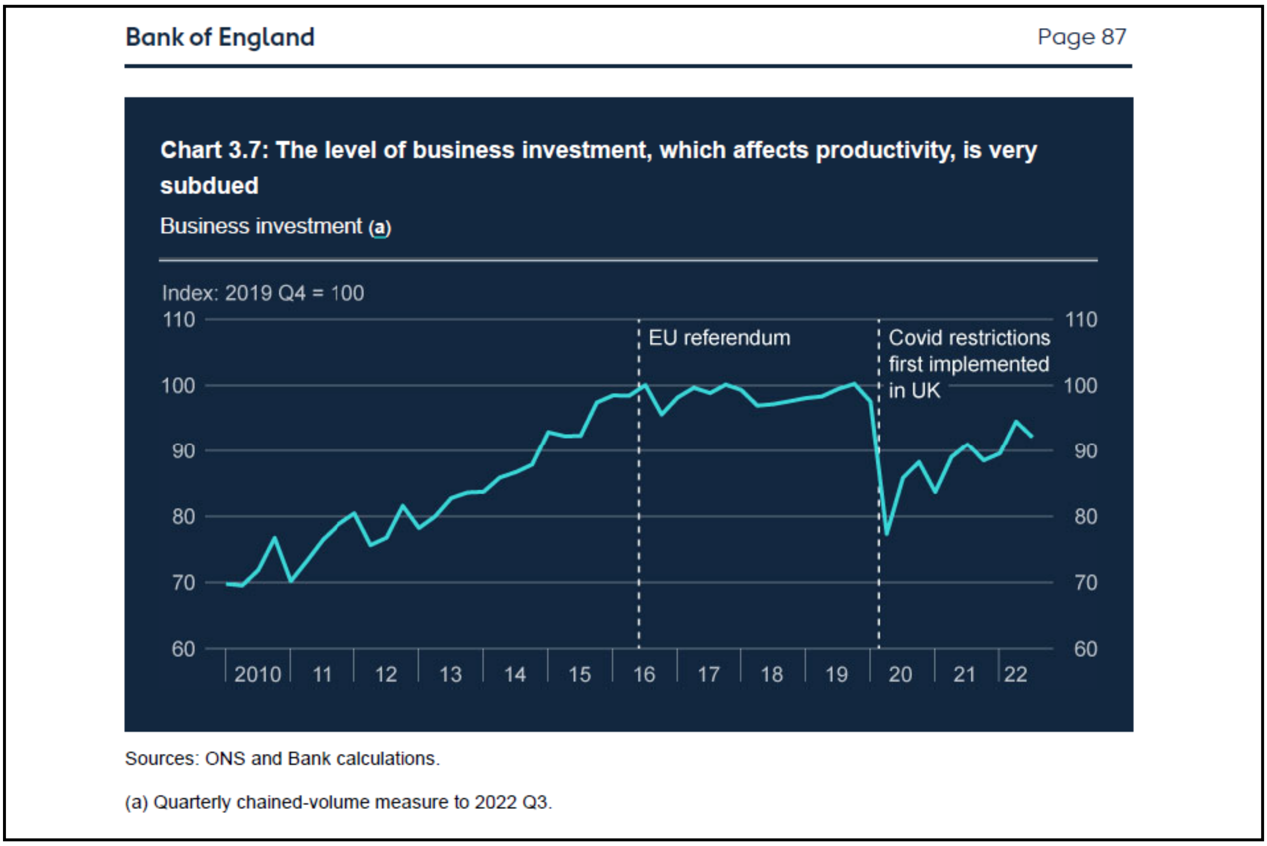
Stalled employer expenditure on general training provision

Evidence from the Employer Skills Survey indicates stalled employer expenditure on general training provision (see Box 3 and Box 4). Fewer employers provided any training in 2019 than 2015 (see Box 8) and only 61% of all employers stated they were in training equilibrium and required no more training (see Box 9).

Poor at the lot?

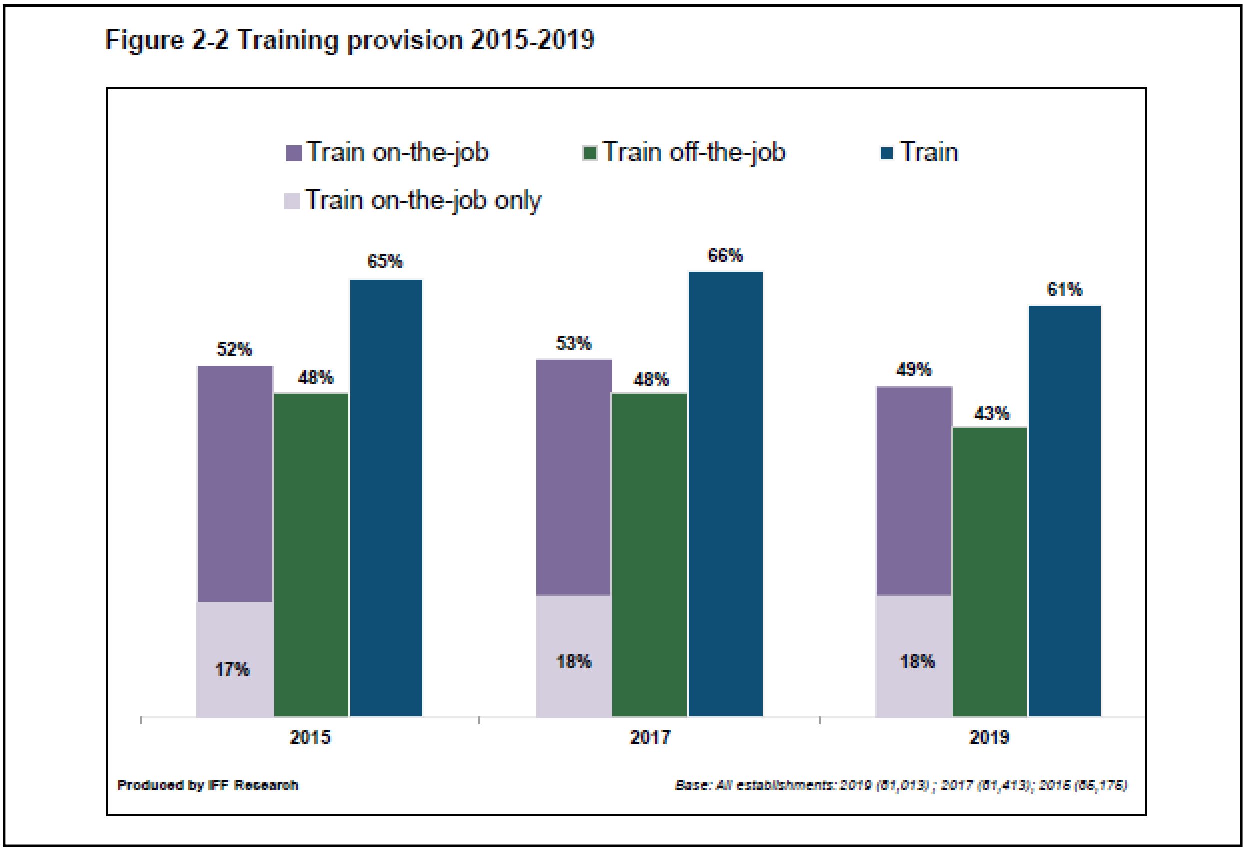
It is not the case that the UK is poor at employer expenditure on general training provision and good at capital investment. On most measures of capital investment, the UK performs weaker than key competitor nations, and between 2015 to 2019 business investment and employer spending on training stalled together.

Box 7



Source: Monetary Policy Report, MPC, Bank of England, February 2023

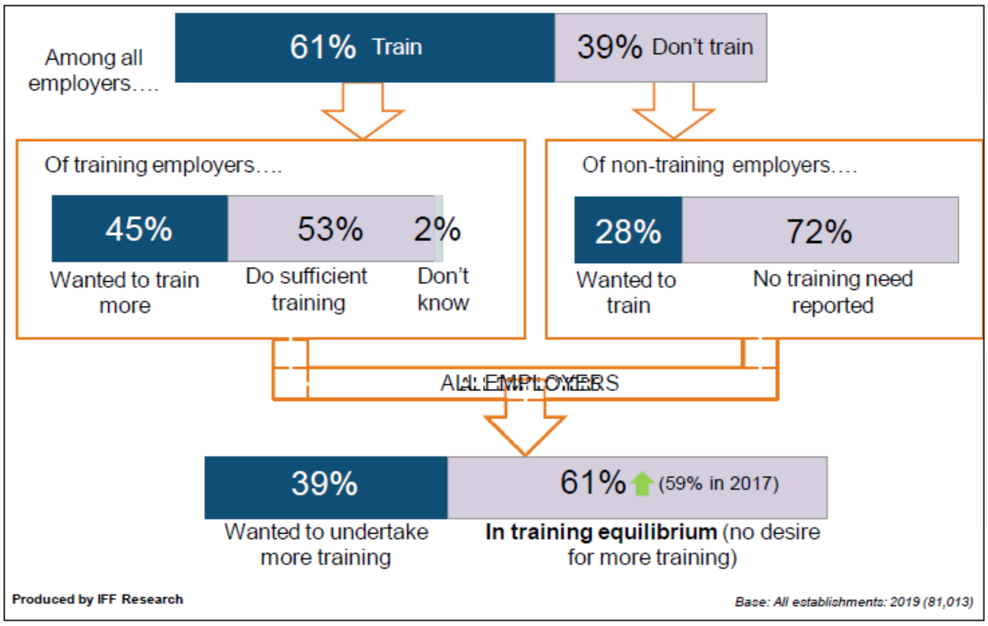
Box 8



Source: ESS 2019 – Training and Workforce Development, Research Report, GSR, DfE, November 2020

Box 9

Figure 7-4 Employers in training equilibrium



Source: ONS https://www.ons.gov.uk/economy/economicoutputandproductivity/productivitymeasures/bulletins/internationalcomparisonsofproductivityfinalestimates/2021

We need to view employer expenditure on training in the context of poor productivity

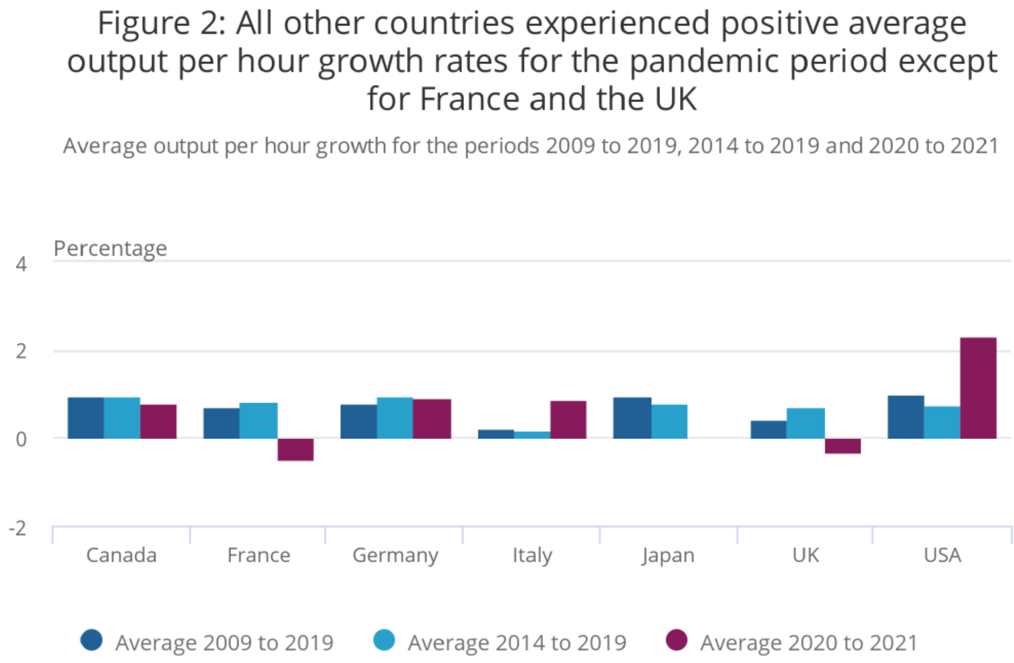
The UK has a productivity problem. Increasing productivity is critical to raising real wages and company profits. Productivity can be raised through increasing investment in physical capital, human capital and new technology.

One measure of productivity is output per worker. Output per hour has been lower in the UK compared to competitor countries for many years (see Box 10). Increasing spending on skills can help to boost labour productivity. Spending on skills – as with investment in capital – comes from three sources: government, individuals/households and employers.

Box 10

Figure 2: All other countries experienced positive average output per hour growth rates for the pandemic period except for France and the UK

Average output per hour growth for the periods 2009 to 2019, 2014 to 2019 and 2020 to 2021



Source ONS https://www.ons.gov.uk/economy/economicoutputandproductivity/productivitymeasures/bulletins/internationalcomparisonsofproductivityfinalestimates/2021

We need to ask what are the productivity gains from employer expenditure of £39bn on general training provision?

Expenditure on general training provision by employers in England in 2019 of £39bn represents a sizeable share of UK GDP – some 1.8%. A legitimate question to ask is why is this vast level of spending not delivering significant productivity gains at the level of the economy, sectors, and/or the level of the individual enterprise?

A large part of employer expenditure on training is on mandatory provision – namely health and safety – and basic and intensive induction training (see Box 11). All of this provision is important. But whilst health and safety and induction training might save a business, it will not necessarily make it more productive in terms of product or service delivery.

Box 11

Source ONS https://www.ons.gov.uk/economy/economicoutputandproductivity/productivitymeasures/bulletins/internationalcomparisonsofproductivityfinalestimates/2021

Less than a third of employers who provided training in the last 12 months in 2019, provided management training and supervisory training. Since only 61% of employers provided training in 2019, this means 80% of all employers provided no management training and 80% provided no supervisory training in 2019.

A lot of attention is often to paid to fact that the average number of training days per trainee fell to 6.0 and to 3.6 per employee in 2019 (see Box 12). Yet, these are the wrong metrics to measure employer investment in skills training. It is difficult to imagine that 6 days of training – or 36 hours, assuming a 6-hour day – a year will meet the technical, coding, supervisory and management skills required to boost productivity.

Box 12

Table 4-1 Total training and development days, and days per trainee and per employee, by country and establishment size (2011-2019)

	2011 Training days			2013 Training days			2015 Training days			2017 Training days			2019 Training days		
	Total	Per trainee	Per employee	Total	Per trainee	Per employee	Total	per trainee	per employee	Total	per trainee	per employee	Total	Per trainee	Per employee
All	105m	7.8	4.3	103m	6.7	4.2	108m	6.8	4.2	105m	6.4	4.0	99m	6.0	3.6
Country															
England	97m	7.9	4.3	95m	6.7	4.2	100m	6.8	4.3	98m	6.4	4.0	92m	6.0	3.6
Northern Ireland	3m	6.3	3.5	3m	6.3	3.7	3m	5.6	3.6	3m	5.7	3.5	3m	5.4	3.4
Wales	5m	7.5	4.2	6m	7.7	4.8	5m	7.2	4.6	4m	6.2	3.6	4m	5.1	3.3
Size															
2 to 4	9m	10.7	4.3	10m	10.5	4.3	9m	10.1	4.3	9m	8.8	3.7	8m	8.8	3.2
5 to 24	27m	9.0	4.7	26m	8.2	4.5	29m	8.4	4.7	26m	7.5	4.1	24m	6.8	3.7
25 to 49	15m	8.3	4.8	14m	7.2	4.5	16m	7.7	5.0	16m	7.4	4.8	14m	6.6	4.1
50 to 99	15m	7.9	4.7	14m	6.7	4.4	16m	7.5	4.9	15m	6.8	4.4	14m	6.1	4.0
100 to 249	15m	6.6	4.0	16m	6.4	4.4	15m	5.6	3.8	17m	5.8	4.1	16m	5.6	3.6
250+	24m	6.6	3.5	24m	5.0	3.6	23m	4.9	3.4	23m	4.8	3.2	23m	4.7	3.2

Base: All establishments that train (though 'days per employee' is based upon employment across all establishments). Base sizes are shown in Table A.3.4 in Appendix A.

Source: ESS 2019 – Training and Workforce Development, Research Report, GSR, DfE, November 2020

We need to ask what are the productivity gains from apprenticeships?

On the other hand, there is some evidence that expenditure on apprenticeships delivers productivity gains (see Productivity Matters: The Impact of Apprenticeships on the UK Economy, CEBR, March 2013). The move to making apprenticeships having a minimum duration of 12 months did not come into effect until August 2012. Today, the minimum requirement for off-the-job training per year is 278 hours equivalent to around 46 days of training.

We need to rethink 'duration and intensity'

If policy makers want employers to invest in skills training which can make a difference to productivity, a long hard look is needed regarding the duration and intensity of skills training. On-the-job training can be as beneficial as off-the-job training, and training concertinaed into a period of months rather than spread over years can be suitable in some circumstances – although to become proficient requires time and experience in some trades and industries.

Indeed, we need to move away from focusing on the average number of training days provided by employers as useful measure, to the distribution of training days by the highest number first. A useful benchmark for this could be the apprenticeship model of 278 hours and 46 days of off-the-job training per year. The metrics for instance would be the number of employees in the UK receiving, (i) at least 46 days of employer training per year; (ii) 23 days of employer training per year and (iii) 11.5 days of employer training per year.

We need to recast the 'skin in the game' principle

Defining 'skin in the game' solely in terms of the funding employers make towards the cost of training and assessment of apprenticeships has always been a strange notion. It conveniently forgets the funding of wage of apprentices by employers. Defined in this way, the principle is even more odd with respect to employer funding of general training provision, where 50% of the cost of training is in the form of wages to trainees and trainers (see Box 2 above).

We need to appreciate skills training is a costly business for employers

As the Resolution Foundation points out, "training is costly to provide" (Page 18, Train in Vain? December 2022). Longer duration skills training is even more costly to provide if an employer is paying the wages of a trainee for twelve months. Twelve months is a long time to be paying wages before an employee becomes fully productive. Skills training is a costly business for employers. The rate of return on investment to employers must include the cost of wages during the training period as well as the cost of training itself.

Since the introduction of the UK Apprenticeship Levy in April 2017, more employers in England restricted recruitment of apprenticeships to existing staff. Part of the explanation might be that for each new entrant to an apprenticeship, an extra wage must be paid. By comparison, employers are already paying the wages of an existing member of staff – although there might be some issues with staff cover.

We need to appreciate employers have concerns over capturing the benefits of investment in skills training

Employers must also be in a position to capture the benefits of any long-term investment in training, especially apprenticeships. Employers will always have in the back of their minds of how to capture the benefits of long-term training when there are 5m job-to-job moves in the economy.

Certainly, the evidence on whether employers are capturing the benefits of apprenticeship training is somewhat mixed. A major downside is that during academic year 2018/19, the leaver rate for apprenticeships in England was 34%. By academic year 2019/20, the leaver rate had risen to 48% – although the Covid pandemic was in full swing between August 2020 and July 2021 (https://explore-education-statistics.service.gov.uk/find-statistics/apprenticeships-and-traineeships/2021-22).

Some comfort might be taken from the fact that only 11% of apprentices stated that they had left their apprenticeship for a job change or better job offer (Apprenticeships Evaluation 2021 – Learners: Research Report, DfE, IFF, March 2022), which is much lower than 20-25% of the workforce who start jobs each year. Nevertheless, apprentices still stopped their training – many for personal reasons – with some staying with their employers and others leaving them, thereby reducing the capture of the benefits of apprenticeships. The fact that employers save paying wages of 38% of apprentices who leave their apprenticeship within six months is also a false economy, as the training may be wasted and full training cannot benefit the performance of the employer.

Evidence suggests that 70% of completers stated they intended to carry on working with the same employer in 2021, compared to 64% in 2021 (Apprenticeships Evaluation 2021 – Learners: Research Report, DfE, IFF, March 2022). The high proportion of apprenticeship completers stating they intended to stay with their employer in 2021 perhaps reflects the uncertainty of changing employer during Covid-19. But there is a huge difference between intentions and reality – completers can leave their sponsoring company for better paid jobs if they wish to as there is no tie-in to an apprenticeship, just employer loyalty.

Policy makers must prioritise employer investment in skills training

Policy makers must actively make a decision to prioritise increasing employer investment in skills training which boosts productivity. Left to their own devices, employers will concentrate on mandatory training and short duration provision to meet immediate business needs.

We need to revisit the derived demand principle

Employer demand for skills is also a derived demand. It is derived from their product and service delivery strategies (see Box 13). It is decisions made by management to grow a business, develop new products and services, and invest in capital, and R&D that drives-up employer demand for skills. Today, the transition to net zero could be added to the drivers of employer demand for skills (see Mission Zero – Independent Review of Net Zero, January 2023).

Box 13

"Skills are a derived demand: employers' skills needs are a consequence both of their product strategy and the firm's characteristics. Management is a key determinant of an employer's product or service strategy and whether skills are used effectively."

Leitch Review - Prosperity for All in the Global Economy: World Class Skills, 5th December 2006
https://www.google.com/search?client=firefox-b-d&q=Lord+leitch+wold+class+skills

Too few employers are high performance working organisations

High performance working (HPW) is defined as approaches to managing organisations which aim to stimulate more effective employee involvement and commitment in order to achieve high levels of performance (Page 125, ESS 2017 – Research Report, GSR for DfE, August 2018). The ESS identifies 21 factors in five groupings which defines HPW (see Box 14). Although interlinked, achieving 14 out of 21 factors determined being an HPW employer. In 2017, 9% of employers were HPW employers and 27% were on the cusp of being HPW employers (defined as having between 10-14 factors – see Box 15).

Box 14

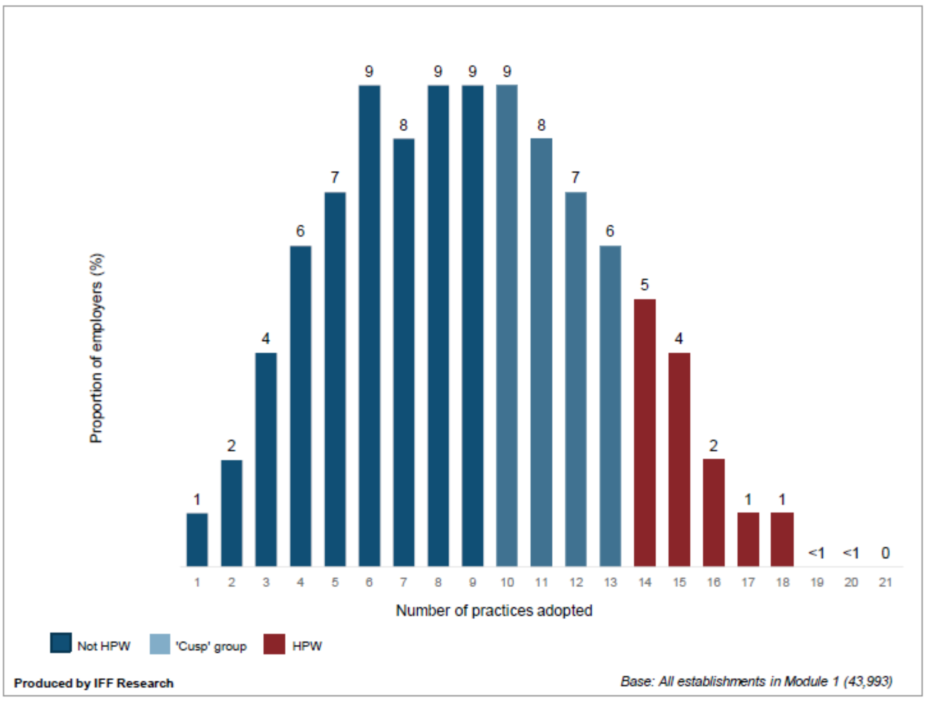
Table 6.1 High Performance Working practices by factor grouping

Factor grouping	Practices
Planning	Training plan Annual performance review Training budget Work shadowing Business plan Equal opportunities policy Training needs assessment
Organisation	Investors in People (IIP) ISO 9000 Trade union consultation Employee consultation Creates teams to work on projects Process to identify talented individuals
Skills	On or off the job training Formal performance review after training
Rewards	Bonus scheme Performance related pay Flexible benefits
Autonomy	Task variety Task discretion Flexible working

Source: ESS 2017 – Research Report, GSR, DfE, August 2018

Box 15

Figure 6.2 Number of HPW practices adopted by proportion of employers



Source: ESS 2017 – Research Report, GSR, DfE, August 2018

HPW employers are more likely to provide any training than non-HPW employers (see Box 16). Worryingly, however, 43% of HPW stated they did not have a business plan, 52% did not have a training plan, and 63% did not have a training budget (see Box 17). Intuitively, it is difficult to imagine how an employer can be defined as an HPW organisation if they do not have training budget. These are poor results for any size of firm.

Box 16

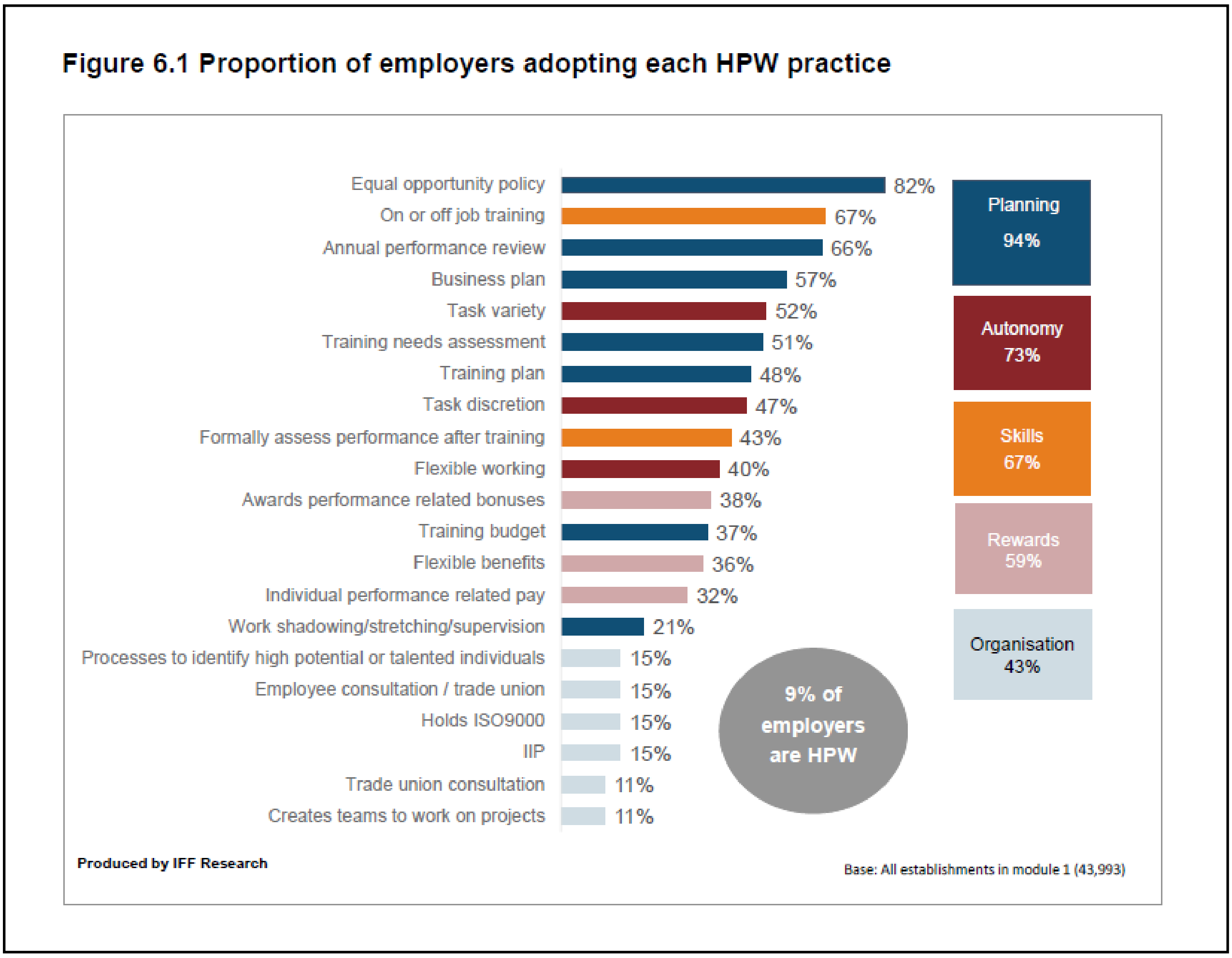
Table A.6.6 Training activity among HPW employers and non-HPW employers by size and sector

		Any training	Proportion of staff trained
	Unwtd. base	%	%
Size			
HPW Employers			
2 to 4	*195*	93	93
5 to 24	*2,789*	97	79
25 to 49	*1,571*	97	75
50 to 99	*966*	98	74
100-249	*680*	98	76
250+	*275*	98	69
5-99	*5,326*	97	76
Non-HPW Employers			
2 to 4	*8,369*	53	42
5 to 24	*20,976*	76	54
25 to 49	*4,614*	91	61
50 to 99	*2,295*	94	63
100-249	*998*	94	68
250+	*265*	94	64
5-99	*27,885*	79	58
Sector			
HPW Employers			
Primary Sector & Utilities	*116*	99	82
Manufacturing	*345*	98	59
Construction	*232*	99	72
Wholesale & Retail	*1,336*	95	80
Hotels & Restaurants	*834*	96	83
Transport & Storage	*192*	94	59
Information & Communications	*187*	93	67
Financial Services	*159*	98	83
Business Services	*1,039*	96	71
Public Admin.	*127*	96	60
Education	*685*	99	77
Health & Social Work	*838*	99	80
Arts & Other Services	*386*	92	75
Non-HPW Employers			
Primary Sector & Utilities	*2,369*	52	48
Manufacturing	*2,880*	60	43
Construction	*3,240*	58	47
Wholesale & Retail	*6,025*	58	51
Hotels & Restaurants	*3,470*	63	56
Transport & Storage	*1,809*	61	52
Information & Communications	*1,788*	61	50
Financial Services	*1,186*	80	69
Business Services	*5,876*	65	59
Public Admin.	*490*	89	53
Education	*2,050*	90	74
Health & Social Work	*3,185*	87	76
Arts & Other Services	*3,149*	68	59

Base: All establishments in Module 1

Source: ESS 2017 – Research Report, GSR, DfE, August 2018

Box 17



Source: ESS 2017 – Research Report, GSR, DfE, August 2018

There are significant fiscal reliefs for capital investment

Prior to the Spring Budget, the level of tax reliefs for employer spending on training is significantly less than employer investment in capital (see Table 2).

There is more relief for spending on R&D than training

Government policy has prioritised tax relief for employer investment in R&D – for instance, compared to employer spending on training.

Employers get more NIC relief in money terms to cut labours costs than they do to employ apprentices

The volume of relief to reduce the cost of labour to employers through allowances linked to the payment of employer NICs (£2.8bn) is far greater than reducing the cost to employers of employing apprentices (£190m).

Table 2

	2019/20	2020/21	2021/22	2022/23
TAX RELIEF				
Non-Training Expenditure				
Corporation Tax				
Annual investment Allowance	£4.0bn	£4.1bn	£3.2bn	£2.6bn
Super Tax Deduction:				
Plant & Machinery			£12.3bn	£12.7bn (Ends)
R&D Expenditure Credit (130%) *Mainly Large Companies* *SME R&D Tax Credit (230%)* *R&D Qualifying Expenditure*	£2.7bn £4.2bn	£2.4bn £4.2bn (£38.1bn)	£2.7bn £5.0bn	Not Available Not Available (Under Review)
Employer NICs				
Employment Allowance	£2.2bn £2,000K	£2.4bn £3,000k	£3.6bn £4,000k	£3.1bn £5,000k
Zero NICs for Under 21 Employees	£630m	£560m	£670m	£770m
Training Expenditure				
Corporation Tax				
Employer Recurrent Spending *L&WI Estimate (July 2021)* *Qualifying Expenditure UK*	£1.3bn Max £45bn			
Expired UK Apprenticeship Levy *CFL Estimate (March 2023)*	£150m			
Employer NICs				
Zero NICs for Under 25 Apprentices	£190m	Not available	Not available	Not available
Income Tax				
Sole Trader *L&WI Estimate (July 2021)*	£600m			
VAT				
Employer VAT Relief on External Fees *CfL Estimate (March 2023)* *Qualifying Expenditure UK*	Max £720m Max £3.6bn			

We need a balanced skills strategy

Greater effort needs to be placed on increasing employer investment and engagement in skills training which boosts productivity. That said, in the context of net worker migration running at 200,000 per year, a dynamic labour market with 5m job-to-job moves annually and a fifth of the workforce in flexible forms of employment, most of the heavy lifting should be done by individually driven skills training.

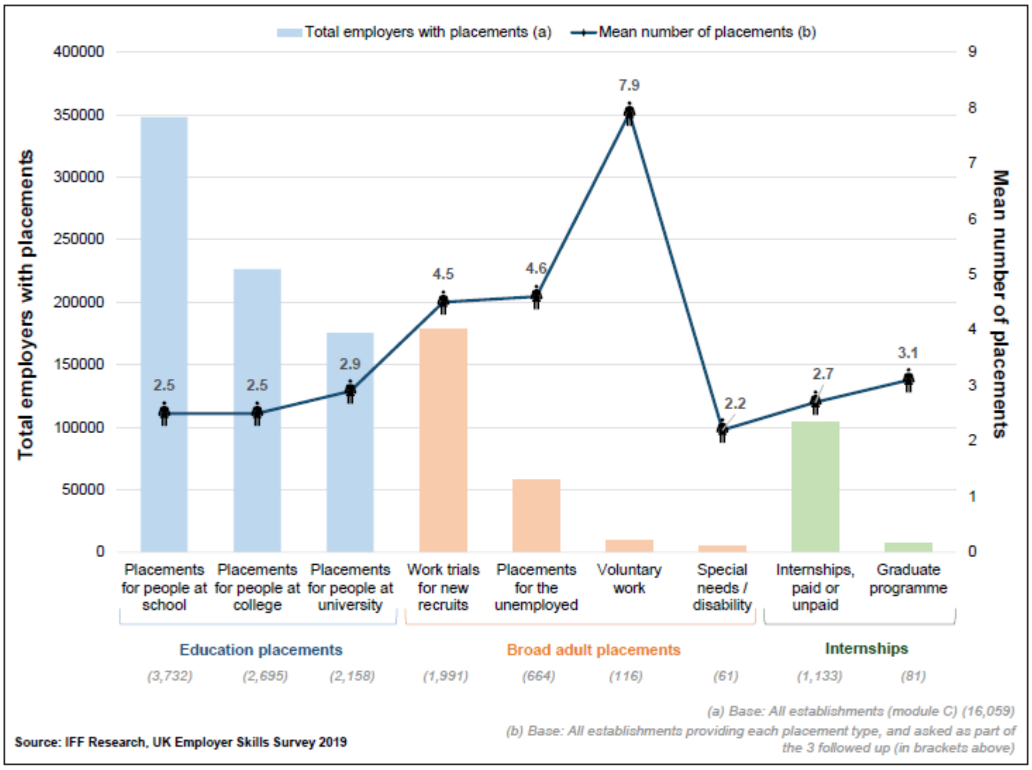
We are in danger of overloading employers with competing requests

Employers offer large numbers of work placements and apprenticeships

Employers were offering 1.1m work placements in 2019/20 (see Box 18). Around the same time, employers were training 0.7m apprentices (see Box 19). Together, employers were offering work placements and apprenticeships to the equivalent of 5% of employees in the workforce.

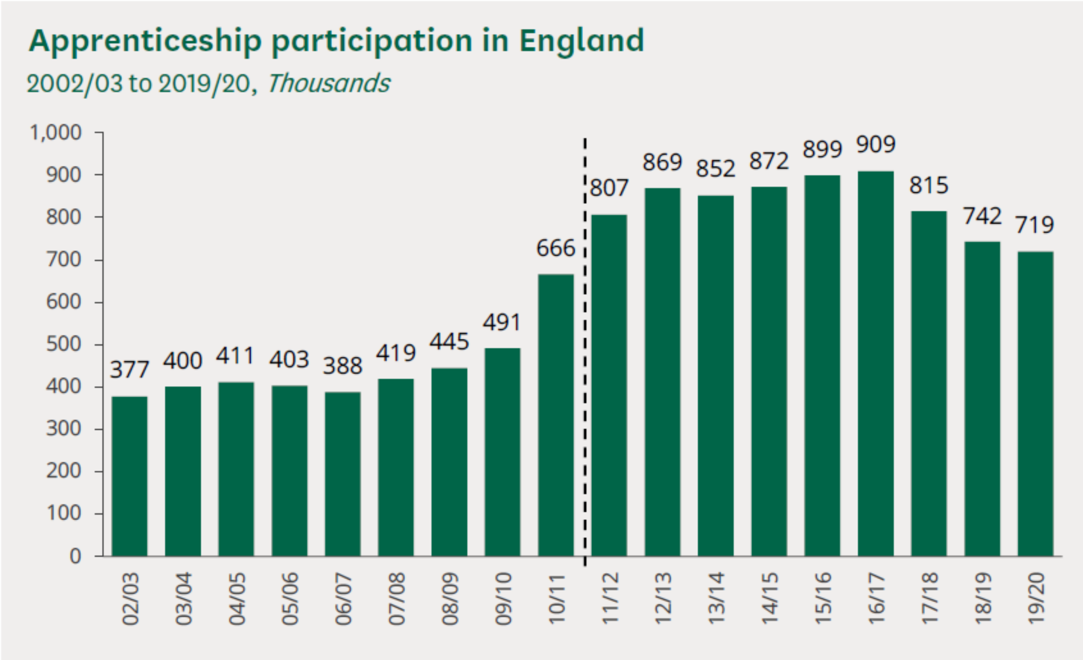
Box 18

Figure 4-3 Mean number of work placements offered in the last 12 months for each placement type



Source: ESS 2019 – Developing the Skills Pipeline, Research Report, GSR, DfE, September 2020

Box 19



Source: House of Commons Library - UK Parliament
https://commonslibrary.parliament.uk/research-briefings/sn06113/

T Level placements are entering a large existing work placement

The Government is introducing T Level work placements for 16-19-year-olds in England in a large existing work placement market. With 6,000 young people aged 16-19 wanting work placements linked to T Levels, they represent less than 0.1% of work placements so far.

T Level placements are longer than the minimum period for off-the-job training for apprenticeships

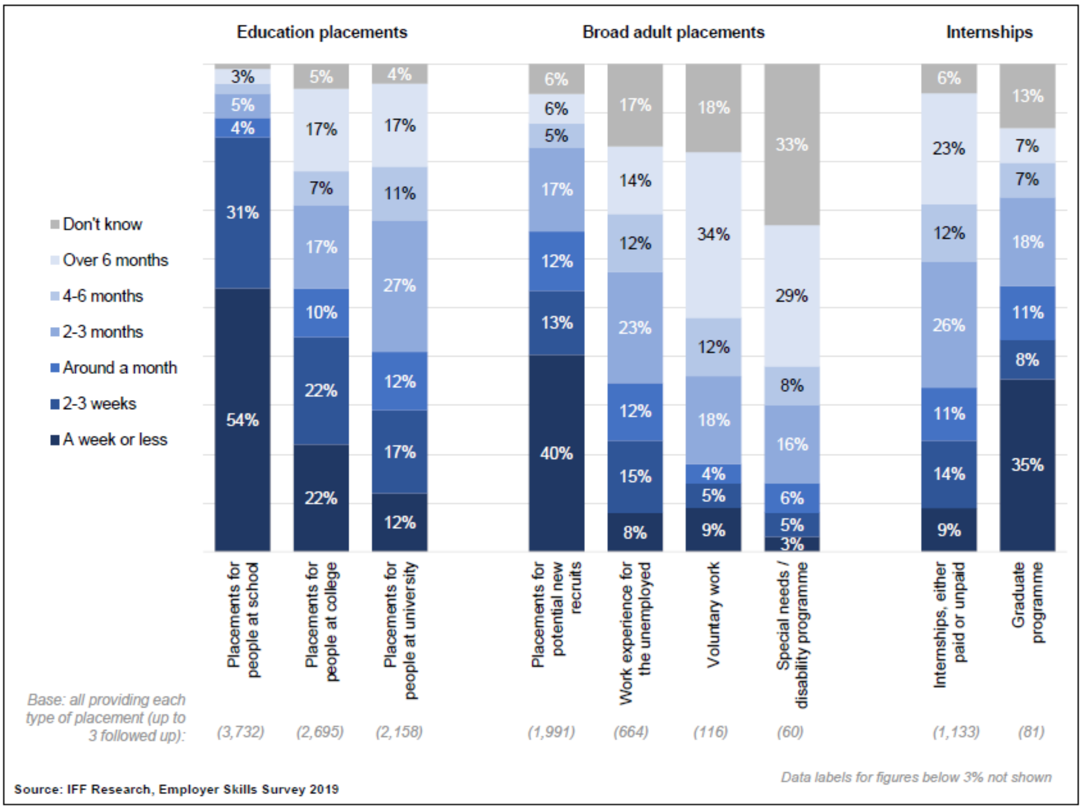
The duration of the work placement for 16-19 Level 3 T Levels is 315 hours – equivalent to 45 days at 7-hours per day. This is longer than the minimum number of 278 hours of off-the-job training employers need to commit to under apprenticeships.
T Level placements longer than most FE college placements

More than half of education placements for college students last less than 2 months (see Box 20). On the basis of 8 weeks, a 5-day week and 7 hours per day, 54% of college placements last no longer than 280 hours.
Few employers offer work placements for company benefits

Employers do not offer 1.1m work placements for company benefits (see Box 21). They mainly do so for altruistic reasons.

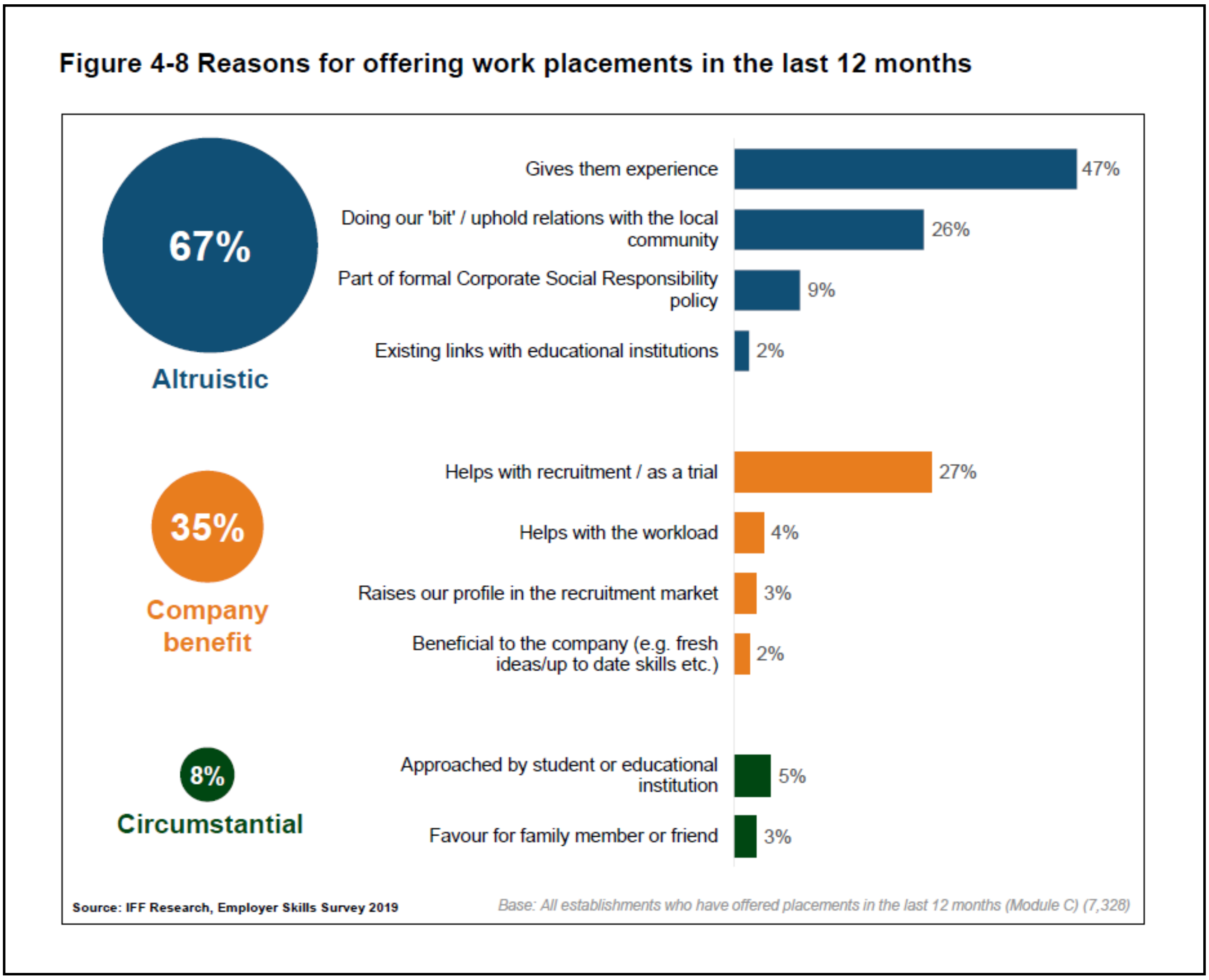
Box 20

Figure 4-4 Length of placements offered by type of placement



Source: ESS 2019 – Developing the Skills Pipeline, Research Report, GSR, DfE, September 2020

Box 21



Source: ESS 2019 – Developing the Skills Pipeline, Research Report, GSR, DfE, September 2020

Recommendations

Mark Corney, Campaign for Learning

Adopt a 'derived demand' approach to employer skills training

Recommendation 1

Align business development, net zero and science and technology policies with employer investment in skills training

The government should introduce a business growth and employer skills training strategy. Skills training is a derived demand for employers. Investment in plant and machinery, and R&D, and the introduction of new product development and service delivery strategies drive-up employer demand for skills. The transition to net zero by businesses will also drive-up employer demand for skills. There must be a closer alignment between the business development policies of the Department for Business and Trade; the net zero policies of the Department for Energy Security and Net Zero; and the science and innovation policies of the Department for Science, Innovation and Technology, with employer investment in training.

Recommendation 2

Formulate a competitive business tax regime to promote capital investment

A priority for the Chancellor at the Spring Budget will be to formulate a competitive tax regime to promote capital investment – in plant and machinery and R&D – as well provide assistance to large companies and SMEs to transition to net zero in line with Mission Zero (The Independent Review of Net Zero, January 2023).

The Chancellor has much to do. Corporation tax rates will rise from 19% to 25% from April 2023. The super tax deduction of 130% for investment in plant and machinery also comes to end in April 2023, and the Chancellor is reviewing tax incentives for investment in R&D, including the end of the 230% super deduction to SMEs investing in R&D. According to the FT Editorial Board, 'UK plc needs a bold long-term plan to support capital spending and 'the economic prize for getting it right is huge' (The Great British business investment problem, Financial Times, 16th February 2023).

Recommendation 3

Changes to the UK Apprenticeship Levy must be placed into the context of higher rates of corporation tax

In 2010/11, the corporation tax rate was 28%. By 2016/17 it has fallen to 20%. And when the UK Apprenticeship Levy was introduced in 2017/18, the corporation tax rate was lowered to 19%, where it has remained until March 2023. From April 2023, the corporation tax will rise to 25% unless there a policy change in the Spring Budget.

The UK Apprenticeship Levy is paid by all employers in the UK – private, public and voluntary – and charged at 0.5% of pay bills above £3m. The levy is on track to raise £3.5bn in 2022/23 (see Table 1) and is forecast to rise to £3.8bn in 2025/26, by which time a general election will have been.

Table 1: UK Apprenticeship Levy - Forecast Receipts

2022/23	2023/24	2024/25	2025/26
£3.5bn	£3.6bn	£3.7bn	£3.8bn

Source: Table A.6: Economic and Fiscal Outlook, OBR, November 2022

Any proposal seeking to increase funding for apprenticeships and other training from the UK Apprenticeship Levy must take into account the elevated levels of corporation tax. On the basis that the proportion of pay bills above £3m is increased from 0.5% to 1.0%, a working assumption is that this would raise an extra £3.5bn in 2023/24. Raising an extra £3.5bn from the UK Apprenticeship Levy to £7.0bn per year would be equivalent to increasing the main rate of Corporation Tax from 25% to 26.5%, as each 1 percentage point increase in the corporation tax rate raises about £2.5bn per year.

It is difficult to imagine how reforms to the UK Apprenticeship Levy to significantly yield extra revenue even from 2025/26 - after a general election has been held – can happen without reductions in corporation tax rates and business taxation first. The politics is also difficult. The levy applies UK-wide. An increase in the rate at which the levy is paid from 0.5% to 1.0% could be portrayed not only as a tax on British business for a tax on Scottish business.

Recommendation 4

Allow fiscal drag to increase the number of firms paying the UK Apprenticeship Levy

The pay bill threshold at which employers pay the apprenticeship levy is £3m. This has not changed since the levy was introduced in 2017/18. With employment relatively stable and nominal wage settlements rising – especially in the context of the cost-of-living crisis – more medium-sized employers will be liable to pay the levy. Maintaining the £3m threshold over the long-term will result in more medium sized employers paying the levy than a reduction in the threshold to say £2m.

Recommendation 5

Greater transparency on how the UK Apprenticeship Levy translates into public spending

Levy and non-levy payers alike would benefit from greater transparency from the Treasury regarding how the levy translates into public spending in Scotland, Wales and Northern Ireland as well as England.

Alongside the budget each spring, a duty should be placed on the Chancellor of the Exchequer to confirm: a) the expected yield from the levy in the coming financial year, b) the amount allocated to the devolved administrations, and c) the amount allocated to DfE for spending on apprenticeships. Greater transparency will improve the quality of the debate over future reforms to the apprenticeship levy.

Recommendation 6

Break out of the 'skills boost growth, but no public funding for skills without growth' cul-de-sac

The Spring Budget must break out of the present skills policy cul-de-sac: skills boost growth, but no public money for skills without growth. The Treasury promised in the 2022 Spring Statement a review of private sector investment in employee training. The 2023 Spring Budget should announce incentives which kickstarts employer investment in skills which boosts productivity.

Recommendation 7

Consider cutting employers' national insurance contributions to give employers a nudge to invest in skills training

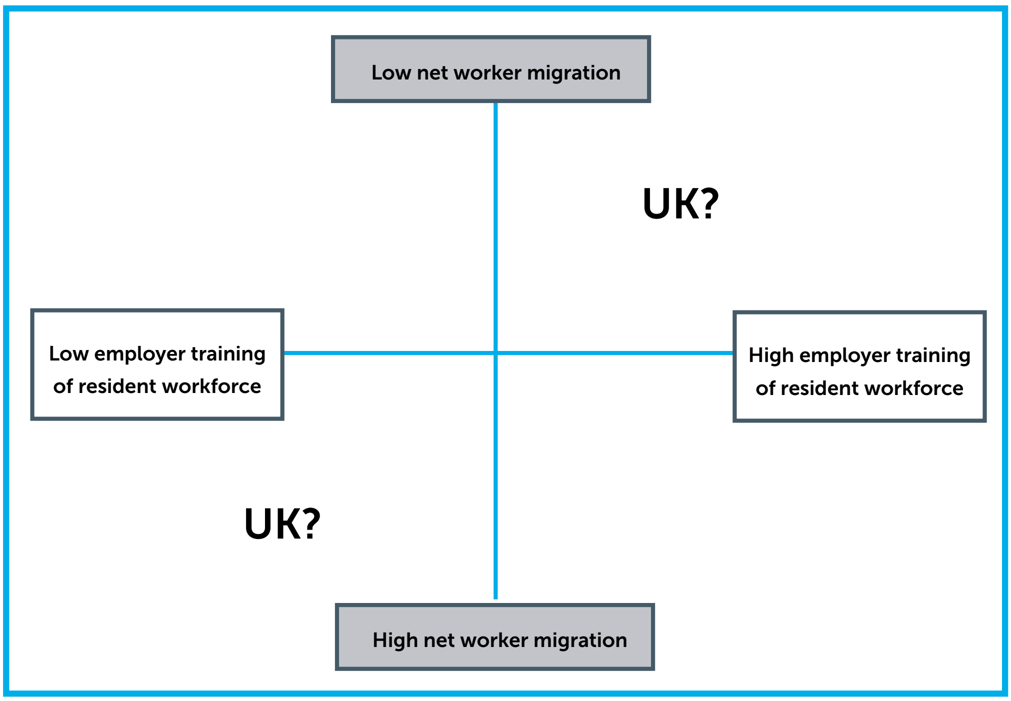
Additional taxpayer funding in terms of public spending is essential to increase employer investment in skills training. But there are opportunities to use the tax system to nudge employers to invest in skills training as well. Current and future fiscal reliefs are heavily targeted to encourage investment in capital and R&D relative to employer expenditure on training. The Chancellor should consider reducing employers' national insurance contributions to give all enterprises – private, public and voluntary – a nudge to invest in skills training.

Recommendation 8

Examine the impact of higher net worker migration on employer decisions to invest in skills training

The greater the level of net worker migration, the greater the incentive to recruit skilled workers from the external labour market (see Diagram 1). The Government has asked the Migration Advisory Committee to consider the evidence for occupations below Regulated Qualifications Framework (RQF) Level 3 which are not currently eligible for a Skilled Worker visa (see Box 1). Large scale net worker migration – from EU or non-EU countries - has the potential to raise economic growth, but such a decision must recognise the signal it transmits to employers to lessen investment in skills training.

Diagram 1



Box 1

What we will consider for this review of the SOL

- Occupations skilled at Regulated Qualifications Framework (RQF) level 3 (A-levels or equivalent training or qualification) and above that are currently eligible for a Skilled Worker visa.
- We have also been asked by the Government to consider the evidence for occupations below RQF3 – these jobs are currently not eligible for a Skilled Worker visa. Evidence needs to suggest that an occupation (or a specific job within the occupation) requires substantial training/qualifications and prior experience and that the job/occupation should be recategorized to RQF3 to be made eligible for Skilled Work visas. We also welcome evidence that the occupation is facing severe and unexpected shortage and that despite the efforts of employers/sectors it is proving impossible to recruit resident workers. We will then consider this evidence as a request for temporary inclusion for eligibility of Skilled Worker visas. Only in exceptional circumstances, with compelling evidence as the MAC received for the Social Care commission, will occupations at RQF1-2 level be considered for inclusion on the SOL.
- Given the recent nature of our recommendation to include care workers on the SOL and the continued failure of the Government to respond to that report, we will not be asking the social care sector to resubmit evidence to this review for their continued inclusion on the SOL. This also applies to senior care workers, which will also continue to be included.
- Given the recent nature of our recommendation to include care workers on the SOL and the continued failure of the Government to respond to that report, we will not be asking the social care sector to resubmit evidence to this review for their continued inclusion on the SOL. This also applies to senior care workers, which will also continue to be included.
- We welcome evidence for jobs across all regions/nations of the UK. We will be assessing occupations in the UK as a whole, but also assessing occupations in each nation where applicable.

Source: https://www.gov.uk/government/publications/shortage-occupation-list-call-for-evidence-2023/guidance-for-the-sol-call-for-evidence-2023-accessible

Recommendation 9

A new narrative for employer skills training is needed

We need a new narrative on employer skills training in terms of the £39bn employers in England spent on training in 2019. The focus should be on employer spending on training which boosts productivity.

Attention should turn away from the average number of training days per trainee (6.0 in 2019) through employer spending on training. Six days training for the average employee is unlikely to boost productivity. Instead, policy makers should ask how many employees received, for example:

- 46 training days or 278 hours per year;
- 23 training days or 139 hours per year, and
- 11.5 days or 70 hours per year.

The metric of 46 days and 278 hours per year is lifted from the minimum number of days and hours per year for off-the-job training for apprentices in England. The argument is not that the definition of skills training should be defined in relation to apprenticeships rather than other regulated or non-regulated qualifications, or in terms of off-the-job training instead of on-the-job training. It is simply a way into a meaningful debate around employer skills training which boosts productivity.

Integrate business growth and employer skills strategies

Recommendation 10

Coordinate and integrate the work of LEPs and employer skills bodies responsible for LSIPs

Organisations identifying the business needs of local employers, and organisations identifying the skill needs of local employers need to be co-ordinated and integrated. The role of LEPs in fostering inward investment and employer representative bodies developing LSIPs must be joined-up and co-ordinated. Whitehall should exercise leadership and rationalise working arrangements in the context of devolution to elected mayoral authorities and strategic local authorities.

Recommendation 11

Launch a 'SME business and net zero planning' voucher

More SMEs need to become high performance working organisations, introducing new product and service delivery plans, transitioning to net zero and upskilling and reskilling their workforce as a result. The Government should introduce a 'SME business and net zero plan' voucher to buy-in management expertise to deliver organisational transformation, ulitise the skills of the existing workforce, and increase investment in skills training.

Recommendation 12

Review business planning standards including Investors in People

The Government should review existing business planning standards and identify those which SMEs spend their voucher on to transform their product and service delivery strategies. One of the standards eligible for funding from the SME planning voucher is Investors in People. The SME planning voucher should be seen as providing support during the journey of organisational transformation.

Recommendation 13

Continue to fund the Help to Grow management programme

The Help to Grow management programme delivers 50 hours of support and training over twelve weeks to senior leaders of businesses with between 5-249 employees (. The joining fee is £750 with 90% of the cost funded by the government. The programme should continue to be funded. Help to Grow could be a vehicle for identifying the need to embark on wider business transformation and adoption of business standards supported by the SME business plan and net zero voucher.

Recommendation 14

Launch a joint DBT and DfE 'FE business innovation fund'

The new DBT and the DfE should jointly launch a FE business innovation fund to support FE colleges to assist local businesses with innovation and developing stronger business and service delivery strategies. Resulting skill needs can then be met by colleges, universities and independent training providers.

Recommendation 15

Launch a joint DESNZ and DfE 'FE net zero business development fund'

The new DESNZ and the DfE should jointly launch a FE business net zero fund to assist local SMEs transition to net zero and meet the resulting upskilling and reskilling needs.

Recommendation 16

Stimulate growth businesses through extended University Enterprise Zones

The Government should expand and extend University Enterprise Zones to stimulate the development of grow-on space for small businesses, with access to management support. Universities can meet the emerging skill needs of employers, including through collaboration with FE colleges and other training providers.

Recommendation 17

Recreate a sectoral infrastructure

The Government should recreate a sustainable sectoral infrastructure that can encourage employer action on skills demand and inform forecasting.

Recommendation 18

Raise Awareness of current fiscal incentives for training to private employers

The Government should work with representative bodies to raise awareness of current fiscal incentives to encourage expenditure on training by private employers, including:

- the deduction of training costs and the wage costs of trainees and trainers against trading profits and corporation tax liability;

- inclusion of investment in company on-site training centres as part of 100% relief against corporation tax under the Annual Investment Allowance of up to £1m, and

- reclaiming of VAT on courses subject to 20% value added tax.

Recommendation 19

Update public procurement guidance for employer provision of skills training

The Government should refresh guidance published in 2015 on the type of skills training to be included in large procurement and infrastructure projects https://www.gov.uk/government/publications/procurement-policy-note-1415-supporting-apprenticeships-and-skills-through-public-procurement).In addition to apprenticeships, specific references should be made to part-time Level 4-5 Higher Technical Qualifications, work placements for 16-19 Level 3 T Levels and part-time adult Level 3 T Levels (after the pilot phase).

Define the total cost of skills training to employers

Recommendation 20

Treat paying the wages of trainees as skin in the game by employers

The Treasury and DfE usually define employers having skin in the game with respect to skills training in terms of contributing all or part of the costs of training. Yet, this definition forgets the potentially bigger cost to employers engaging in skills training – wage costs.

Recommendation 21

DfE should estimate the wage costs paid by employers to apprentices in England

The DfE spent £1.9bn on apprenticeships in England in 2019/20. A back of the envelope calculation based on the number of apprentices in the academic year 2019/20, median earnings of apprentices in 2018/19 and the retention of apprentices in 2019/20 leads to an estimate of £5.9bn. If this is anywhere near right, the wage costs to employers were three times larger than the training costs of apprentices. The Treasury and DfE should commission research into estimating the cost to employers of wages paid to apprentices in England.

Encourage greater demand by employers in England for apprenticeships

Recommendation 22

In the short term, the stand-out features of apprenticeship funding should be retained

The apprenticeship programme is the only 'large-scale' employer-driven funding stream in the post-16 education and skills system in England delivering skills training which has the potential to boost productivity. For the present, therefore, the Government should retain the key features of apprenticeship funding in England. The key features are:

- funding is devolved to each employer both levy payers and non-levy payers;
- funding is restricted to delivering and supporting apprenticeships, and
- employers choose the age of the apprentice and in most cases the level of the apprenticeship.

Recommendation 23

The Treasury should move to a dual system of apprenticeship funding in England

A dual system of apprenticeship funding should be introduced: general taxation should fund young people on apprenticeships and resources from the levy should fund adult apprenticeships.

Recommendation 24

Apprenticeship starts before the 18th birthday should be funded out of general taxation

Employers do not pay for the cost of young people in full-time further education at school or college. Funding comes from general taxation. Accordingly, employers should not pay towards the cost of apprenticeships for young people, which should also be funded out of general taxation. Apprenticeships for 16-17 year-olds should be fully funded from the taxpayer. Incentives to young apprentices should be reported separately.

Around 50,000 16-17 year-olds participate on apprenticeships in England. Some start an apprenticeship aged 16 and 17 and do not finish it until age 18 or 19. Funding for apprenticeships started before the 18th birthday should be funded out of general taxation. The cost of funding apprenticeship starts before the 18th birthday could be around £300m (see Table 2). The Treasury and DfE should publish a premise estimate.

Recommendation 25

All apprenticeship incentives and support payments should be identified as a non-levy funded budget head

Currently, incentive and support payments are included in the total budget head for apprenticeships. During 2021/22, the budget head for apprenticeships included £219m for Plan for Job incentives, equivalent to 9% of the total budget. It was the inclusion of the £219m for incentive payments in the total apprenticeship budget of £2,466m that meant the underspend was only £11m. Going forward, all current and future apprenticeship incentive and support payments to employers and providers - including at a time of economic crisis when wage incentives are required to help employers to take on apprentices - should be identified as a non-levy DfE incentives and Support Budget (see Table 2).

Table 2: Three DfE apprenticeship budgets

	2023/24
Non-Levy Funded DfE 16-17 Apprenticeship Budget	(a)**c£300m**
Description: Cost of training and assessment of starts before the 18th Birthday	
Non-Levy Funded DfE Incentives and Support Budget	**c£33m**
Description: Cost of current and future incentive, and other support, payments	
Levy Funded DfE Adult Apprenticeship Budget (1) (2)	**£2,700m**
Note Of which: Spending Estimate – Mains: 2022/23 Additional Spending Brought Forward	 £2,583m (b)£117m
Description: Cost of current and future incentive, and other support, payments	
NET INCREASE IN PUBLIC SPENDING FROM 2023/24	**+£417m**

Note 1: https://www.google.com/search?client=firefox-b-d&q=DfE+main+estimate+202%2F23

Note 2: https://www.google.com/search?client=firefox-b-d&q=DfE+main+estimate+202%2F23

Explanation: Autumn Budget and Spending Review 2021 committed spending on apprenticeships to rise to £2.7bn by 2024/25. The mains estimate for 2022/23 states the DfE apprenticeship budget is £2,583m in 2022/23. So £117m required to bring forward £2.7bn total for 2023/24.

Recommendation 26

The Apprenticeship Levy should only fund adult apprentices and should be set at £2.7bn

The levy should only fund employers recruiting adults starting an apprenticeship from age 18. The budget for adult apprenticeships in 2023/24 should be set at £2.7bn (see Table 2).

Recommendation 27

Increase total DfE spending on apprenticeships by £400m in 2023/24

The Chancellor should increase total DfE spending on apprenticeships by c£400m in 2023/24 in the Spring Budget. This is composed of c£300m to fund apprenticeship starts before the 18th birthday from general taxation and an extra £117m brought forward so the adult apprenticeship budget reaches £2,700m.

Recommendation 28

End the 5% cash contribution by non-levy payers to apprenticeships

On the grounds of removing financial barriers to SMEs and simplification, the Government should cease the 5% cash co-funding contribution from April 2023. This should be funded within the £2.7bn budget total for levy-funded adult apprenticeships.

Recommendation 29

Extend zero employer National Insurance contributions to newly hired apprentices aged 25 and over

Employers do not pay employer National Insurance contributions on the pay of apprentices aged under 25 up to £50,270 (see Box 1). The Chancellor should extend employer NIC relief to all newly hired apprentices by levy and non-levy payers for apprentices aged 25 and over. Both private and public sector employers will benefit from such an extension. The rate of Class 1 employer NICs is 13.8%. For an older apprentice earning £19,100 per year, the saving to the employer would be £1,380.

Box 2

8.6 Relief on NICs for apprentices under 25

Description

Metric	2017 to 2018	2018 to 2019	2019 to 2020	2020 to 2021	2021 to 2022	2022 to 2023
Forecast cost (£ million)	110	120	125	-	-	-
Cost Estimate (£ million)	110	160	190	-	-	-
Difference (£ million)	0	40	65	-	-	-
Percentage difference	0%	33%	52%	-	-	-

Commentary on differences between outturn cost and original forecast

The outturn cost is as forecasted in 2017 to 2018 and then higher in 2018 to 2019 and 2019 to 2020.

The original forecast was based on a 1% sample of employee jobs from the Annual Survey of Hours and Earnings for 2013 and BIS apprenticeship data. The outturn is estimated using a near-complete view of employees and their monthly wages from HMRC's Real Time Information.

Source: https://www.gov.uk/government/statistics/main-tax-expenditures-and-structural-reliefs/non-structural-tax-relief-statistics-january-2023#large_reliefs

Recommendation 30

Review again the use of apprenticeship funding for Level 7 MBAs

There is sufficient concern in the post-16 sector that DfE should review once again the use of apprenticeship funding by employers for management apprenticeships, particularly the use of the levy for Level 7 MBAs.

Recommendation 31

Employer skills bodies responsible for LSIPs to act as SME hubs for apprenticeships

Employer representative bodies responsible for delivering Local Skills Improvement Plans should become hubs for small and medium size enterprises which are non-levy payers to gain information and guidance about how to register on the digital service and gain access to apprenticeship funding.

Raise Employer Demand for Shorter Duration and Modular Skills Training

Recommendation 32

Create and fund a separate national Employer Skills Bootcamp

DfE should create and fund a separate Employer Skills Bootcamp which ring-fences funding to employers training and retraining groups of their own employees. The Chancellor should set aside £100m for the programme from 2023/24. Adults seeking a job and employed adults seeking a career move should continue to be funded through existing budgets.

Recommendation 33

End the 30% funding contribution by employers for Skills Bootcamps

To ramp up employer demand, the 30% funding contribution by employers to Skills Bootcamps should be abolished.

Recommendation 34

Extend zero employer national insurance contributions to employers training and retraining staff on Skills Bootcamps

Training and retraining staff is an expensive business. Wages still have to be paid. To assist employers train and retrain existing staff, relief on employer NICs should be extended to employees on Skills Bootcamps lasting a minimum of 70 hours over 13 weeks (i.e., a quarter of the minimum duration of off-the-job training for apprenticeships). For a worker on median earnings of £33,100, the saving to the employer would be £828 for the 13 weeks of the course.

Recommendation 35

Develop a SME loan for modular skills training

Working with the Treasury, the Department for Business and Trade, and the Department for Education should develop a business loan available to small and medium sized enterprises to upskill and reskill their workforce through modular courses. The Recovery Loan Scheme could be a possible model to explore, which offers each business group up to £2m, with the government guaranteeing 70% of the finance to the lender.

Increase employer engagement in adult part-time Level 3-5 technical education

Recommendation 36

Extend zero employer National Insurance contributions to adults on part-time Level 3-5 technical education qualifications

Adults without a first Level 3 qualification are entitled to fully funded training, whilst those seeking a second Level 3 qualification have access to fee loans (via adult learner loans). Similarly, adults seeking a first Level 4-5 qualification via part-time study can fund courses through fee-loans. Hence, there are no course costs to employers. As part-time students, employees might also be eligible for part-time maintenance loans or bursary grants.

However, a key aim must be to engage private and public employers in supporting existing employees to combine employment and part-time technical education. On-the-job learning linked to traditional vocational education is important. Employers might also need to provide time-off for study, which can cause difficulties in sourcing staff cover. And so, the government should extend zero employer NIC to employers with employees on:

- part-time adult Level 3 T Levels (if they go national), and

- part-time Level 4-5 Higher Technical Qualifications (HTQs) lasting a minimum of one year (as they are rolled out).

Assist employers to invest more in high quality management training

Recommendation 37

DfE should estimate employer spending on management training

DfE should commission research into how much of the £39bn employers spend on general training provision is spent on management training rather than the management of training.

Recommendation 38

Continue funding management apprenticeships at level 3-6

Both levy and non-levy paying employers should continue to be able to receive funding from the apprenticeship budget for management apprenticeships at level 3-6 to enable management training to contribute to productivity.

Recommendation 39

DfE and employer organisations should promote management related part-time higher technical qualifications (HTQs) to Employers

DfE and employer organisations should promote to employers the introduction of HTQs in business and administration starting in September 2024, and in sales, marketing and procurement from September 2025. Employers should be encouraged to support members of their existing staff to combine employment and part-time study of management related HTQs.

Increase employer engagement in work placements

Recommendation 40

Employer skills bodies responsible for LSIPs should become employer hubs for T Level placements

Employer representative bodies across England responsible for Local Skills Improvement Plans should become employer hubs to co-ordinate and increase the offer of T Level placements where demand will rise as the number of 16-19 year olds taking these qualifications increase.

Recommendation 41

Universal work experience for 14-19 year olds must not crowd out expansion of 16-19 T Level placements

T Level placements are entering a large work placement market. Employers offered 1.1m education placements in 2019 and a further 0.7m apprenticeships. The number is higher if DWP programmes are included, and the demand might grow if there is a return to a policy of universal work experience for 14-15 year olds and 16-18 year olds in full time education at school or college (see Learning from Experience, Social Market Foundation, March 2023). It is important that any return to universal work experience for 14-19 year-olds does not crowd out employer offers of work placements for 16-19 T Levels.

Introduce a strong individually-driven skills strategy

The UK has a dynamic labour market. There are 7-8m job starts per year. The UK has a high proportion of flexible workers - without guaranteed earnings or hours - who are self-employed, temporary workers in jobs with low-or-zero hour contracts. In this contex, there is only so much that employer-driven skills strategies can do to train and retrain the workforce. Employer-driven skills strategies need to be balanced by individually-driven skills strategies. The Government needs to introduce individually-driven skills strategies which help adults to upskill and reskill themselves to take new jobs, change career and working longer as the state pension age rises to 68 by 2028.

Recommendation 42

View the Adult Education Budget as an individually-driven funding stream

The influence of employers over the distribution of the £1.5bn Adult Education Budget for Level 3 and below qualifications is relatively limited. Policy makers, therefore, should view the AEB as an individually-driven funding stream, which is increasingly being devolved at local level.

Recommendation 43

Introduce individual learning accounts alongside the Lifelong Loan Entitlement

The Government should introduce a system of Individual Learning Accounts for Level 3 and below qualifications – funded through grants and loans – alongside the Lifelong Loan Entitlement which funds Level 4-6 higher education through fee-loans (including full-time, part-time and modular provision).

Recommendation 44

Extend maintenance loans to help adults upskill and reskill at Level 3

The Government should extend part-time maintenance loans for adults upskilling and reskilling at Level 3 in line with adults upskilling and reskilling at Level 4-6.

Past Publications

Campaign for Learning Policy Pamphlets

No.1 Earn or Learn for 18-21 year olds: New Age Group, New Policies, November 2015, Mark Corney

No.2 University or Apprenticeships at 18: Context, Challenges and Concerns, April 2016, Mark Corney

No.3 Reforming Technical and Professional Education: Why should it work this time? February 2017, Mick Fletcher

No.4 Mending the Gap: Are the needs of 16-18 year olds being met? January 2018, John Widdowson

No.5 Shaping the new National Retraining Scheme, March 2018, Susan Pember

No.6 T levels for 19-23 Year Olds – The value of maintenance loans, August 2018, Mark Corney

No.7 The Post-18 Review of Education and Funding – A Review of a Lifetime, December 2018, Editors Michael Lemin, Julia Wright and Mark Corney

No.8 Post-16 Education and Apprenticeship Levy Funding – Next Steps for English Devolution, April 2019, Editors Michael Lemin, Julia Wright and Mark Corney

No.9 Future Proofing Apprenticeship Funding in England for the 2020s, October 2019, Editors MichaelLemin and Julia Wright

No.10 No 16-18 Left Behind – as the cohort grows, February 2020, Editor, Michael Lemin and Julia Wright

No.11 Making a Success of the National Skills Fund – Adult Training and Retraining for All in the 2020s, March 2020, Editor Julia Wright

No.12 Revolutionary Forces – Shaping the Post-16 White Paper, July 2020, Editor Julia Wright

No.13 Revolutionary Forces – Reforms for a 'Revolutionary' Post-16 White Paper, September 2020, Editors Julia Wright and Mark Corney

No.14 Understanding and Overcoming a Mental Health Crisis in 2021: Issues for post-16 education, employment, the world of work & retirement, February 2021, Editors Julia Wright and Mark Corney

No.15 Racing to Net Zero: The role of post-16 education and skills, June 2021, Editors Julia Wright and Mark Corney

No.16 Reforming Adult Social Care: Integrating Funding, Pay, Employment and Skills Policies in England, November 2021, Editors Julia Wright and Mark Corney

No.17 Post-16 Education and Skills: Levelling Up Everyone, Everywhere, March 2022 Editors Julia Wright and Mark Corney

No.18 Parents, Children and Adult Learning: Family Learning Policy in the 2020s, July 2022 Editors Julia Wright and Mark Corney

No.19 Learning in the Cold: The Cost-of-Living Crisis and Post-16 Education and Skills, October 2022, Editors Julia Wright and Mark Corney

Campaign for Learning Discussion Papers

No.1 COVID-19 and Post-16 Education: Planning for a Different September, April 2020, Contributors - Susan Pember and Mark Corney

No.2 Growing Level 4 and 5 Technical Education – A Segmented Policy Approach, November 2020, Contributor - Mark Corney

No.3 Bringing it All Back Home: Reviving and Unifying and the Family Learning and Parental Engagement Agendas, September 2020, Author - Sam Freedman

Campaign for Learning Working Papers

No.1 The Lifetime Skills Guarantee – Exploring the Lifelong Loan Entitlement and Incorporating Lifelong Grant Entitlements, April 2021, Mark Corney

Campaign for Learning

The Campaign for Learning works for social and economic inclusion through learning. In 2020, it became an independently managed organisation in the NCFE charity.

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