AELP Submission: #122

AELP Industrial Strategy Green Paper – Consultation Roundtable

December 2024

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1. **What are the key enablers and barriers to growth in key sub sectors and how could the UK government address them?**

The Employer Skills Survey states that over a third of UK job vacancies in 2022 were due to skills shortages, an increase from 22% in 2017[1]. These skills gaps are a significant barrier to growth in key sectors. Employers are struggling to hire workers with the appropriate skills at a time when 872,000 young people are not in education, employment or training. This means there are people without jobs and jobs without people. According to the Confederation of British Industry's Employment Trends Survey, 71% of employers surveyed believed skills gaps were a threat to the UK economy's competitiveness, with labour shortages coming in second at 58%[2].

As the Skills England reports 'we will need skilled workers to deliver our commitment to build 1.5 million new homes, to make our country a clean energy superpower, and to ensure we have an NHS fit fir the future'. [3] Some examples covering priority sectors include:

- According to a World Skills UK report on manufacturing, 57% of manufacturers cited challenges accessing a skilled workforce, while over half are experiencing shortages in advanced manufacturing skills. [4]
- 7.5 million people, or 18% of adults, lack essential digital skills that are needed for the workplace. [5]
- The Climate Change Committee progress report on the UK said it was 'significantly off track' for training heat pump engineers needed to enable the transition, calling on the government to publish an action plan for Net Zero skills[6].
- The Construction Industry Training Board (CITB) estimates that the UK will need an extra 250,000 construction workers by 2028 to meet the government's target to build 1.5 million homes over the next five years.[7]

Skills development is also a key policy driver of inward investment, which in turn increases investment in skills and in high quality jobs. According to the EY attractiveness survey, which surveys international investors, skills was the second biggest factor in investment decisions (35%), behind only access to grants (38%), noting "skills-building can be a key motivator for attracting global capital to different parts of the UK"[8].

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[1] https://www.gov.uk/government/statistics/employer-skills-survey-2022
[2] https://www.cbi.org.uk/media-centre/articles/cbipertemps-employment-trends-survey-2024/
[3] https://assets.publishing.service.gov.uk/media/66ffd4fce84ae1fd8592ee37/Skills_England_Report.pdf
[4] https://www.worldskillsuk.org/wp-content/uploads/2023/05/Manufacturing-excellence-report_v4a.pdf
[5] https://commonslibrary.parliament.uk/research-briefings/cdp-2024-0073/#:~:text=Digital%20skills%20statistics&text=This%20found%20that%207.5%20million,Data%20Skills%20Gap%20%E2%80%93%20Full%20report
[6] https://www.theccc.org.uk/publication/progress-in-reducing-emissions-2024-report-to-parliament/
[7] https://www.citb.co.uk/about-citb/news-events-and-blogs/over-250-000-extra-construction-workers-required-by-2028-to-meet-demand/
[8] https://www.ey.com/en_uk/newsroom/2024/07/foreign-direct-investment-in-uk-grows-as-europe-declines

There are several factors behind the growing skills gap in the UK. First, the skills system is fragmented an opaque, and employers often struggle to match their demand for skills with a skills programme. Second, funding for skills programmes does not reflect the critical nature of skills; skills are a keystone, holding economic growth, personal growth and business growth up. Third, there remains a lack of parity between academic and technical education, and within technical education. Independent Training Providers (ITPs), who deliver 65% of apprenticeships in England and engage with 300,000 employers nationally, often miss out on government support available to colleges.

2. **Where you identified barriers in response to Question 7 (barriers to investment) which relate to people and skills (including issues such as delivery of employment support, careers, and skills provision), what UK government policy solutions could best address these?**

    1. Bring the apprenticeship budget into closer alignment with the revenue raised by the Apprenticeship Levy, releasing £700m of additional apprenticeship and skills funding. This would: transform apprenticeships by allowing funding bands to reflect the cost of delivering training and indexing them to inflation; fund foundation apprenticeships and other flexibilities the government plans to introduce through the Growth and Skills Levy; and support recruitment and retention of staff at apprenticeship providers.
    2. Create individual learner accounts, empowering learners and allowing funding to follow them throughout their career.
    3. Support all providers of further education with recruitment and retention of staff.
    4. Allow apprenticeship providers to access capital funding pots available for colleges, meaning learners can learn with the latest, industry standard equipment.
    5. Create a standardised framework for skills devolution, simplifying the procurement process for national employers and providers.

At a time when the government is keen to increase employer investment in skills, it is not using money raised for skills on skills programmes. The Apprenticeship Levy raised £3.9bn in 2023/24, with the Office for Budget Responsibility projecting levy receipts to increase to £4.7bn in 2029/30. Meanwhile, the apprenticeship programme budget is set at £2.7bn, with no planned rise. Assuming £500m is sent to the devolved nations as part of the Barnett formula, this means Treasury is top slicing £700m a year, rising to £1.4bn a year, from the apprenticeship budget. This is money raised by employers for skills, but not released to employers. The top slice should be released over a number of years, transforming apprenticeship funding, and transforming perceptions of the levy and the apprenticeship system for employers.

Brining the apprenticeship budget into closer alignment with Apprenticeship Levy receipts would help fund:

- An increase in overall skills and apprenticeship funding. Ove the last three years 98% of the apprenticeship budget has been spent. This indicates that demand for apprenticeships and skills programmes is there, and with increased flexibility in the form of the Growth and Skills Levy to come, demand will likely increase.

- Maintaining an all ages, all level apprenticeship system, where learners are funded for an apprenticeship throughout their careers, and high level skills (level 6 and 7) are funded to meet industry needs.
- Apprenticeship funding bands that meet the costs of delivery. Many apprenticeship providers are delivering apprenticeship standards in key priority sectors at a loss, cross subsidising this with commercial training. Funding bands, particularly in sectors aligned to the industrial strategy, should be adequately funded, allowing apprenticeship providers to meet the demands of employers for training provision.

The Adult Education Budget (AEB) has fallen by 30% since 2003/4.[9] This is a signal that government has not prioritised adult training and should be reversed. However, the model itself should also be reformed. Recent figures show a £300m underspend on the non-devolved AEB since 2020, showing that the money that has been allocated isn't being spent[10]. AEB is currently administered to providers nationally and regionally through grant funding and procurement. This system is clearly not working. The government should consider introducing individual learner accounts, as recommended in the Labour Council of Skills Advisors report[11]. Creating individual learner accounts would ensure funding follows the learner, not the institution they study at. The apprenticeship budget follows a similar demand led model and has resulted in 98% of the budget being spent on average for the years 2021/22, 2022/23 and 2023/24.

The government has set an ambitious target of increasing Britain's employment rate to 80%. A joined up policy approach across the Department for Education, the Department for Work and Pensions and the Department for Business and Trade should be taken. There are currently 872,000 young people not in education, employment or training and 9.25 million people aged between 16 and 64 who are economically inactive[12]. Increasing the employment rate, and therefore helping businesses to close gaps in recruitment will mean not just reform of AEB, but also tackling the increase in 16-19 student numbers expected in the next four years.

Further education is beset by recruitment and retention problems. This issue is heightened in some of the key sectors outlined in the Invest 2035 green paper, where wages are high in industry, ironically often due to skills shortages, meaning recruitment of teachers and tutors is difficult. Further education providers compete with industry and with schools for high quality teaching staff and are often unable to compete with the pay offered to schools and in industry. The gap between school and college pay is around £9,000, and £10,000 between schools and independent training providers. In April 2024 the government announced £200m of funding to help colleges attract and retain teachers in science, technology, engineering and maths (STEM) subjects, in the form of £6,000 per teacher. However, this funding was not available for independent training providers, who deliver 65% of apprenticeships.

If government wants to train the next generation of workers in key sectors outlined in the industrial strategy, it needs to support all providers of further education to hire quality trainers.

[9] https://ifs.org.uk/education-spending/adult-education-and-skills#:~:text=Total%20public%20spending%20on%20adult,04%20(adjusted%20for%20inflation).
[10] https://questions-statements.parliament.uk/written-questions/detail/2024-10-28/11394
[11] https://labour.org.uk/wp-content/uploads/2022/10/WR-16813_22-Labour-Skills-Council-report-Edit-19-10-22.pdf
[12] https://researchbriefings.files.parliament.uk/documents/CBP-9366/CBP-9366.pdf

The priority sectors outlined in the green paper are capital intensive sectors. High quality apprenticeships to train the next generation of workers in these sectors will require significant upfront capital costs by providers. The government should open current skills capital budgets to all providers of apprenticeships, allowing apprentices access to the latest, industry standard equipment, when off the job training.

3. **What more could be done to achieve a step change in employer investment in training in the growth-driving sectors?**

Average employer spending on training has decreased by 27% per trainee since 2011. Fundamentally the culture of employer investment in training needs to improve. The EU average investment in training per employee is double that of the UK and it would take an extra £6.5 billion a year to catch up.

The skills system should be simple and easy to understand for employers, who are often time poor. This heightens the need for a simple and easy to navigate skills system. This is a particular issue when it comes to the devolved regions. National employers and providers face a patchwork of different procurement regimes and processes, acting as a barrier to investing in skills. There should be a standard process for skills delivery across all the regions, helping regional authorities focus on what they do best – convene employers, learners and providers in their area to meet local skills needs.

There also needs to be recognition that other policy areas will have an impact on employer investment in training. For example, the recent changes to National Insurance Contributions and apprentice minimum wage will likely have a negative impact on employer investment in training, taking funds away from training budgets. Independent training providers are also impacted by the increase in National Insurance.

The government could use incentive payments to encourage employers to invest in training in key sectors, such as the incentive payments used during the COVID pandemic. The scheme offered £2,000 for an employ0er if they hired an apprentice under 24 years old, or £1,500 if they were over 24. As a result 77% of claims were made for under 24 year olds. This shows that incentive schemes are effective for employers. In this case an additional incentive of only £500 directed them to hire more young apprentices. Incentives such as this could be used for delivering apprenticeships in key sectors outlined in the industrial strategy.

The government could also introduce a skills tax credit, similar to the research and development tax credit introduced by the government in 2000. A skills tax credit would incentivise employers to invest in skills and training of their workforce, while ensuring that skills policy is not dependent on government spending.

4. **What public and private sector interventions are needed to make strategic industrial sites ‘investment-ready’? How should we determine which sites across the UK are most critical for unlocking this investment?**

According to the EY attractiveness survey, which surveys international investors, skills was the second biggest factor in investment decisions (35%), behind only access to grants (38%), noting “skills-building can be a key motivator for attracting global capital to different parts of the UK”. The public and private sector should work together to ensure the skills base is available or the skills pipeline is ready to meet the needs of the industrial strategy and domestic and international investors. This would require long term vision, spanning several parliaments, including close collaboration with devolved regions.

Association of Employment and Learning Providers
2nd Floor,
9 Apex Court
Bradley Stoke
Bristol
BS32 4JT

t: 0117 986 5389

e: enquiries@aelp.org.uk
www.aelp.org.uk

@AELPUK
AELP
aelpuk