



Institute of Directors

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THE RT HON THE BARONESS TAYLOR OF BOLTON  
House of Lords Industry and Regulators Committee  
House of Lords  
London  
SW1A 0PW

Dear Chair,

## Skills for the future: apprenticeships and training

**The IoD is an independent, non-party political organisation representing 20,000 company directors, senior business leaders, and entrepreneurs. It is the UK's longest-running organisation for professional leaders, having been founded in 1903 and incorporated by Royal Charter in 1906. Its aim is to promote good governance and ensure high levels of skills and integrity among directors of organisations. It campaigns on issues of importance to its members and to the wider business community with the aim of fostering a climate favourable to entrepreneurial activity in the UK.**

We welcome the opportunity to respond to the House of Lords Industry and Regulators Committee's Call for Evidence on skills policy. Ensuring that individuals have the skills needed for the future of the UK economy is of considerable interest to the IoD and its membership, and we are therefore pleased to present our views.

### Summary of the IoD view

The availability of appropriate skills is a long-standing issue that negatively affects British business. The issue has become particularly acute in the past couple of years. IoD research has found that, since the beginning of 2023, around 40% of IoD members have consistently stated that 'skills shortages/employee skills gaps' are having a negative effect on their organisation.

Although the availability of appropriate skills has been in the spotlight since the end of the COVID-19 pandemic, IoD members report that they nevertheless consider the issue to be longer-term and structural. For example, when in July 2021 we asked those of our members who reported that skills shortages were having a negative effect on their organisation what they thought the reason was, the most common answer was 'long-term skills shortages in the required area'.

Action is needed to remedy skills and labour shortages across the UK to ensure that businesses are able to access the skills they need to grow and thrive. A whole-economy solution is needed, one which involves workplace training as much as it does the more traditional education routes for people at early stages of their careers.

## Answers to individual questions

### 1. What kinds of skills do you think will be needed for the future of the UK economy? Is the UK's skills and training system capable of equipping increasing numbers of people with these skills?

In May 2024, we polled over 400 business leaders and found that almost half (44%) reported skills/labour shortages as having a negative impact on their organisation. When asked which types of occupations they were finding it hardest to recruit, the most common response was professional occupations typically requiring graduate or postgraduate qualifications (47%), followed by skilled trades (35%), and associate professionals (30%) (see Appendix: Figure 1).

It is likely that ongoing economic and technological changes will intensify the employer demand for occupations requiring advanced training highlighted in our research. Against the backdrop of the fourth industrial revolution, demand for digital skills is growing and automation is increasing demand for higher-level skills. Business' ability to decarbonise will also depend on the availability of the right skills and training to drive the green revolution.

Economic change will also reinforce the importance of employability skills. Employers frequently report demand for transferable employability skills – such as literacy, numeracy, communication, critical thinking, and reliability – and a belief that the skills system needs to better embed these skills alongside technical competencies.

*“Do these new qualifications actually give us as employers recruits who can read, write, add up and get out of bed in the morning?” – SME business leader, commenting on the government's plans to introduce the Advanced British Standard*

### 2. What is the appropriate level of government intervention in the development of skills policies? How can government best add value in this area?

The most important way that government can add value in this area is to provide incentives and signals which encourage the market to focus investment in areas of skills shortages.

At present, the missing piece of the policy armoury is an independent mechanism for determining where there are currently skills shortages and where there are likely to be shortages in future. Once that is understood then government can target its resources across the economy to fill the gaps.

We therefore propose the creation of a 'Shortage Occupations Agency' that is public sector, but arms-length from government with one statutory duty: to produce the best analytical and technocratic forecast of current and future skills shortages in the UK.

The Agency should be able to receive evidence and commission research but should not make policy recommendations beyond the production of the list of priority skills shortage areas itself. In this way it would be similarly technocratic to the Low Pay Commission, which receives evidence and advises government on the most appropriate level of the minimum wage. The new body should stop short of the remit of the now-abolished UK Commission on Employment and Skills, which acted more like a thinktank with a wider range of policy recommendations.

**3. Are current Government policies on skills, particularly apprenticeships and training, sufficiently clear? Have policies and the institutional set-up been sufficiently consistent over time? If not, what changes or reforms would you recommend?**

A significant barrier to employer engagement with the skills system is the lack of consistency in skills policymaking. The frequency of policy changes in the skills space not only limits the ability of policies to embed and demonstrate efficacy – or a lack thereof – but can also lead to businesses exercising caution when deciding to invest in engaging with the system. Businesses naturally aim to build engagement with skills programmes into longer-term planning, thus a long-term vision and plan from government is crucial to achieving employer buy-in. The recent announcement that T Levels would be replaced by the Advanced British Standard, for instance, stood in unhelpful contrast to several years of work by government and the business community to raise awareness of industry placements.

*“I wish to the love of God that respective governments would stop [messing] around with the UK education and training system, treating it as a political football. We need to set up a high-value, high-impact, best practice, academic, technical, and professional training framework and systems and then let them alone to do their job.” – SME business leader*

**4. Concerns have been raised over the operation of the Apprenticeship Levy, particularly in relation to the decline in young people taking on apprenticeships. Is there a case for reforming the levy, for example by ring-fencing more levy funding for training for younger apprentices?**

The decline in apprenticeship starts, particularly in SMEs, since the introduction of the Levy is a strong indication that the policy is not delivering its stated aims.

In an IoD survey in May 2023, business leaders whose organisations do not currently offer apprenticeships most commonly cited finding other forms of training to be more relevant as the reason (see Appendix: Figure 2). This finding points to a key issue in the design of the Levy; while apprenticeships are a vital component of the skills system they are not a catch-all solution to skills shortages, yet Levy payers are reluctant to commit further investment in skills development while they have unspent Levy funds. The inflexibility of the Levy therefore encourages firms and training providers to rebadge training, including into less efficient formats, in order to utilise Levy funds to meet their actual skills needs.

There is also an urgent need to deal with the growing chasm between Apprenticeship Levy receipts and government expenditure on apprenticeships. A significant portion of Levy receipts is not being utilised and simply represent a windfall tax on employers.

In order to increase investment in skills and to make the Levy fit for purpose, we propose the following:

- Introduce meaningful flexibility in how Apprenticeship Levy training funds can be used, to enable Levy-paying firms to invest in the range of training needed to futureproof their employees' skillsets. The existing funding of 95% of SMEs' apprenticeship training costs should be retained.
- Work with business representative organisations to identify what additional support would increase SME uptake of apprenticeships, to address the halving of SME apprenticeship starts since 2016.

Given the importance of upskilling and reskilling the existing workforce against the backdrop of an ageing population, and the vital role that apprenticeships can and should play in that process, ringfencing a proportion of levy funding for younger apprenticeships would be an unhelpful step.

**5. What should the role of business be in encouraging the development of skills in the UK? Should business be a consumer, funder, trainer, or co-designer of skills provision?**

Businesses should be embedded in the skills system such that they can be involved in all of the mentioned functions. Realistically, few businesses have the capacity to comprehensively undertake all of these functions, particularly co-design; a healthy skills ecosystem facilitates business engagement in as many of these ways as is feasible at the individual business level.

**6. In a more mobile, flexible labour market, what incentives do employers have to provide training for their employees? Why do you think that employer investment in training has declined in recent decades?**

An increasingly mobile and flexible labour force does lead to concern in some businesses, particularly SMEs, that any significant investment in employee training could be lost where employees move employers before the investment is recouped.

At the same time, incentives remain and take multiple forms: in the need to fill skills gaps to remain competitive where those skills cannot be easily recruited, as a means of improving staff retention, and an acknowledgement at the sector level of the mutual benefit of developing a strong pool of talent.

The reasons for declining employer investment are manifold, but a key factor has been messaging and investment from government. Total public spending on adult skills has decreased since the early 2000s, from £6.3 billion in 2003-04 to around £4.4 billion in 2022–23 (adjusted for inflation)<sup>1</sup>. The poor signal

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<sup>1</sup> Drayton et al. (2023). *Annual report on education spending in England: 2023*. London: Institute of Fiscal Studies.

which this decline sends to business has been compounded by a lack of a clear and shared vision for skills development in the UK. An IoD survey of over 1000 business leaders in May 2023 found firstly that 9 in 10 wanted to see an industrial strategy from government, and second, that 59% wanted to see skills and vocational education as a priority for such a strategy, more than any other area of policy (see Appendix: Figure 3).

**7. Should further incentives be put in place to reverse the decline in employer investment in training, and if so, what form should these incentives take?**

At a first glance, the tax system appears supportive of workplace investment in training; companies who spend money on any form of business-related training for their employees can deduct this against revenue as an allowable expense for the calculation of corporation tax.

It follows that the simplest way to sharpen the incentive for employers to increase the amount of training they undertake would therefore be to allow the deductibility to be greater than 100%, in effect reducing the corporation tax bill further.

The argument against such an approach is that there would be significant ‘deadweight loss’: although it may encourage more training, the taxpayer would also be subsidising all the existing activity that was already taking place. The way through this is to focus taxpayer resources in the areas where there is a wider public interest in the training occurring, namely where there are demonstrable economy-wide skills shortages.

We propose a tax credit – or super-deduction – for company costs incurred in training staff in skills shortage areas identified by the Shortage Occupations Agency discussed above. This would provide an incentive for firms to fund training in areas of critical importance to the future performance of the economy. It would also obviate any reluctance that companies might feel about investing resources in staff who could defect to competitors if their new skills are in high demand, while minimising the risk of deadweight loss.

**8. How does the UK’s approach to skills and training compare to those of other countries? Are there examples of good practice that the UK should be learning from?**

A focus of comparative analysis should be on best practice in upskilling and reskilling the existing workforce. While the upcoming introduction of the Lifelong Learning Entitlement may provide individuals with greater flexibility in how they fund lifelong learning, it is not clear that the loan model will increase learner uptake at the levels needed given the pace of economic change.

Singapore’s SkillsFuture programme, for instance, aims to develop an integrated, high-quality system of education and training that responds to constantly evolving industry needs and fosters a culture that supports lifelong learning. In addition to giving all citizens credits at age 25 – which can be spent on selected, subsidised courses – a top-up of SGD4000 is given at age 40, which can be used on 7,000

selected courses that support substantive upskilling and reskilling for mid-career workers. Employers are also given credits to embark on enterprise and workforce transformation and financial incentives where they hire local jobseekers aged 40 and above through a reskilling programme.

Elements of this model – namely, directly funding the kinds of courses the economy needs, ideally informed by insights from a Shortage Occupations Agency (as discussed above) and targeting support at mid-career workers – represent the kind of ambition and holistic strategy to reskilling and upskilling needed in the UK.

I hope you have found our comments helpful. If you require further information about our views, please do not hesitate to contact us.

With kind regards,



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## Appendix

**FIGURE 1: IOD MEMBER SURVEY RESULTS: MAY 2024 (184 RESPONDENTS)**

Row Labels	You said 'skills shortages and/or labour shortages' are having a negative effect on your organisation. Please select which types of occupations you are finding the hardest to recruit.
Administrative and secretarial	13.0%
Associate professionals (e.g. science and engineering technicians, nurses and other occupations requiring high-level vocational qualifications)	29.9%
Caring, leisure and other service occupations (e.g. carers, hairdressers, childcare)	8.2%
Elementary occupations (e.g. farm workers, security, cleaners)	4.9%
Managers, directors, and senior officials	20.1%
Plant and machine operatives	10.9%
Professionals (e.g. lawyers, accountants, engineers, and jobs usually requiring graduate/postgraduate qualifications)	46.7%
Sales, marketing, and customer service (e.g. cashiers, sales assistants)	15.2%
Skilled trades (e.g. electricians, plumbers, motor mechanics, construction workers)	34.8%

**FIGURE 2: IOD MEMBER SURVEY RESULTS: MAY 2023 (915 RESPONDENTS)**

**Does your organisation offer apprenticeships?**

	<b>Count of Does your organisation offer apprenticeships?</b>
Yes	34.2%
No	56.0%
N/A	8.1%
Don't know	1.7%
<b>Grand Total</b>	<b>100.0%</b>

**Why does your organisation not offer apprenticeships?  
Please select all that apply.**

**Responses (515)**

<b>Row Labels</b>	<b>Count of Attribute</b>
Can't find apprenticeship programmes which meet our skills needs	14.4%
Cashflow pressures on our business	13.9%
Other forms of training are more relevant	24.6%
The apprenticeship system is too bureaucratic	12.5%
Other (please specify in the further comments box below)	34.7%
<b>Grand Total</b>	<b>100.0%</b>



**FIGURE 3: IOD MEMBER SURVEY RESULTS: MAY 2023 (1026 RESPONDENTS)**

<b>Row Labels</b>	<b>Count of Do you think that the government should create a UK industrial strategy, which would define long-term objectives for business in terms of priorities and policies?</b>
Yes	87.5%
No	8.1%
Don't know	4.4%
<b>Grand Total</b>	<b>100.0%</b>

<b>Row Labels</b>	<b>What should be the top priorities of a UK industrial strategy? Please select your top three.</b>
Green investment	41.2%
Infrastructure (broadband, energy, transport)	57.1%
Innovation and R&D	73.2%
Local and regional development	25.7%
Sector-specific support and partnerships	21.4%
Skills and vocational education	57.9%
SMEs and start-ups	29.3%
<b>Grand Total</b>	<b>100.0%</b>