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Skills for growth: what the UK can learn from international approaches for incentivising employer-based training

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Executive summary

A highly skilled workforce will be essential to delivering the UK's growth and industrial strategy ambitions – boosting existing areas of strength as well as driving and adapting to technological change in the digital and green transitions. While increasing the supply of skills through further and higher education is important, greater employer investment in the current and future workforce will also be needed. This is particularly the case in the eight growth-driving sectors identified by the UK's Modern Industrial Strategy (IS-8)[1], where demand for higher-level skills is expected to grow significantly.

Recent research has estimated that the UK economy could gain between £44bn-£46bn in additional output – equivalent to around 1.5 per cent of GDP – if firms with the lowest levels of training began investing more (Du, 2026).

Yet employer investment in training has declined since 2011. The proportion of employers providing training fell from 65 per cent in 2011 to 59 per cent in 2024, and the intensity of training (average investment per employee) fell by 31 per cent in real terms between 2011 and 2024. The decline has been particularly pronounced among larger firms (those with 100 or more employees), where it fell by 49 per cent in real terms.

There are several reasons why employers may underinvest in training. Alongside difficulties meeting the direct costs of training and those associated with the time required to release employees, firms may be reluctant to invest where workers can move to other employers and take their skills with them. Employers also report wider barriers, including difficulties navigating the skills system, complex funding arrangements and weak coordination with training providers. Rapid technological change, as is the case currently with AI, can also create uncertainty around skills needs and the best ways of meeting them. These constraints can result in employer investment falling below the level that would be socially desirable, particularly where firms cannot capture the full benefits of their investment.

Skills is a devolved policy area in the UK. In this report, the focus is mostly on informing policy in England (though some of the issues are just as relevant elsewhere in the UK). In England, there have been several recent reforms intended to address skills challenges. This includes the establishment of Skills England in 2024, and the publication of Sector Jobs Plans setting out actions to meet sector specific skills needs in each of the eight IS sectors. Pre-existing initiatives have been continued or built upon, including Local Skills Improvement Plans and Skills Bootcamps. New flexibilities in the Growth and Skills Levy, and confirmation of the Lifelong Learning Entitlement provide important building blocks for a more coordinated approach to workforce development. But, existing initiatives do not fully address the barriers that prevent firms investing in their workforce.

This report reviews international evidence on approaches to increasing employer investment in training, focusing on three broad models: coordination between employers and training providers; sector-based employment and training programmes; and financial incentives for employer investment.

[1] More details in Appendix 1.

The evidence does not point towards a single model that could simply be adopted in the UK. Instead, it suggests a mixed approach that builds on existing structures, encouraging sectoral coordination, employer engagement and providing targeted financial support, while allowing sufficient flexibility for local adaptation.

Drawing on the evidence in these areas, we set out nine recommendations for national and local government, and employers across England. These recommendations are set across the three broad models where we look at international evidence, and are given below:

Coordination across employers, providers and governments

1. **Strengthen cross-government policy coordination.** Policies to encourage more employer investment in skills cut across education and skills, industrial strategy, innovation, taxation, labour market and immigration policy, as well as national and local government. A dedicated cross-government policy workstream, supported by a named minister with responsibility for the overall package, should translate the evidence gathered through the recently established Labour Market Evidence Group into actionable recommendations and ensure that policies across government work towards common objectives. Coordination between national and local government should also be strengthened as further devolution takes place.

2. **Align Local Skills Improvement Plans (LSIPs) with the Industrial Strategy and local growth plans.** LSIPs already provide an employer-led planning mechanism with a statutory footing. Local leaders, businesses and education providers can broaden their remit and also integrate higher education more systematically alongside further education to support a more joined-up approach to local workforce development.

3. **Give Skills England greater capacity to convene partners and build evidence**. This could include a stronger role in applied research, knowledge mobilisation, piloting and evaluation, drawing lessons from Canada's Future Skills Centre.

Sectoral approaches for addressing skills shortages and needs

4. **Make sector-based coordination the organising principle for investment.** Sector Jobs Plans provide a natural vehicle for identifying priority skills needs and barriers to employer investment, and for coordinating employers, skills providers and policymakers around longer-term workforce objectives. Government should adopt a holistic approach to sectoral training partnerships, drawing on evidence from successful US programmes and ensuring that initiatives have the intermediary capacity, employer involvement and wider support needed to succeed.

5. **Reorient existing instruments rather than creating new ones.** For example, the government can further develop Skills Bootcamps within a stronger sector-led model. Alongside this, the Growth and Skills Levy can be further tilted towards priority skills needs through short courses. Modular training should lead to recognised credentials so that the skills acquired remain portable across employers and roles.

6. **Enable places to pilot sector partnerships.** National and local policymakers can leverage devolved and place-based institutions to test more intensive models of employer coordination, particularly in priority sectors and locations where strong employer and education partnerships already exist. These pilots should also connect to Jobcentres and wider Department for Work and Pensions provision where they aim to support people into employment.

7. **Broaden the financing model to connect with the social impact investment agenda.** Blended finance involving government, employers and philanthropic or social impact investment could help support sectoral employment programmes, particularly where they target disadvantaged groups and generate measurable employment and earnings gains.

Financial incentives for employer investment in skills

8. **Target financial support where the barriers are greatest.** Experience suggests that broad-based financial support may lead to government subsidising training that would have happened anyway, including general induction courses, as opposed to training that is job-specific and provides meaningful upskilling or reskilling of workers. Instead, the government should pilot financial instruments in sectors, places or types of training where barriers to investment are greatest, build evaluation into their design, and – based on lessons from this evaluation – direct further funding towards approaches that demonstrate genuine additionality. Where investment in capital and skills is complementary, government should also consider linking existing tax incentives or other support for business investment to commitments to workforce training. Looking forward, this type of approach has the potential to help steer AI adoption towards labour-augmenting applications.

9. **Use public procurement to drive employer investment in skills.** National government now gives higher weighting to social value linked to jobs, skills and workforce development when awarding procurement contracts. It is important to specify measurable skills outcomes and ensure delivery is monitored against these commitments. There is scope for local governments to follow the national government's lead on procurement and give stronger weighting to commitments to training and workforce development. The scale of these requirements should be proportionate to the value of contracts typically awarded in each region.

In addition, we highlight that an overarching priority for policymakers, researchers and other stakeholders is to continue building the evidence base on what works.

The barriers to employer investment in skills vary across sectors, places and firm type. Policymakers should systematically assess the binding constraints facing employers to inform policy interventions. Sector Jobs Plans and the work of Skills England and the Industrial Strategy Advisory Council provide opportunities to develop a common framework for assessing these barriers. Policy experimentation and evaluation should be used to identify what works, refine successful interventions and inform future policy design.

There are important trade-offs in implementing any approach that involves more prioritisation. There is a risk that prioritisation (in line with industrial strategy approaches) and building on or adding new initiatives adds administrative complexity and policy churn to a system that has witnessed a lot of reform in recent years.

In addition, experimenting with new approaches will require tolerance for risk and longer-term funding commitments. And given fiscal constraints, any new resources devoted to encouraging employer investment in training must be balanced against funding needs elsewhere in the skills system.

The central implication of this report is that policy support should be focused where it generates the greatest economic and social returns, while limiting the fiscal, administrative and coordination costs of intervention in an area of policy that involves multiple actors and that firms already find complex to navigate. It sets out ways to achieve this by leveraging the frameworks developed in the Industrial Strategy and Sector Jobs Plans – strengthening and connecting the structures already in place and channelling resource and policy effort to where barriers are greatest and strategic needs most pressing.

Introduction



1. Introduction

A highly educated workforce is central to delivering stronger growth in the UK, and particularly to achieving the goals set out in the UK's Modern Industrial Strategy published in 2025. The Industrial Strategy identifies the eight priority sectors (IS-8) with the greatest potential to drive long-term economic growth, all of which rely on workers with advanced technical, professional and managerial skills (Department for Business and Trade, 2025). Increasing the supply of skilled workers will therefore be essential to achieving the strategy's ambitions.

The UK can meet its future skills needs through a combination of increasing the number of people coming out of further and higher education with high skill levels; enabling those who are in work to upskill or reskill; helping those who are out of work gain the skills they need to find meaningful work, and through attracting international talent. Given the scale of projected demand, no single route is likely to be sufficient (Bahl and Overman, 2026). Recent changes to immigration policy, alongside the wider objective of reducing reliance on international recruitment to address skills shortages, make strengthening domestic skills and employer investment particularly important.

As set out by government in its Post-16 education and skills white paper (Department for Education, Department for Work and Pensions, and Department for Science and Technology, 2025), there is a key role for supply side policies in further and higher education. But increasing employers' investment and engagement in skills is equally crucial for boosting growth, enabling the successful adoption of new technologies and ensuring that people are able to access opportunities for good work.

Employer investment in training generates substantial economic returns. International evidence suggests that a 10 per cent increase in the share of trained workers leads to a 1.7 to 3.2 per cent increase in productivity (Konings and Vanormelingen, 2015). UK evidence similarly finds that increasing spending on training by 20 per cent raises productivity by around 2 per cent (Schwarz et al., 2026). It has been estimated that if firms with the lowest levels of training increased participation to the national average, the UK economy could gain an estimated £44bn-£46bn in additional output, equivalent to around 1.5 per cent of GDP (Du, 2026).

Training also generates benefits for workers directly. For example, a recent study found that workers receiving more than one day of job-related training annually report higher life satisfaction (Fitzhugh and Daniels, 2025). Furthermore, in an era of rapid technological change and significant uncertainty regarding the impact of AI adoption on workers, training is likely to play an ever more important role in building worker resilience. For example, a recent study by Falck et al. (2026) based on data from 37 countries finds that firm training reduces a worker's automation risk by 3.8 percentage points.

Furthermore, the OECD's AI surveys have found that workers are more likely to say that AI use has improved performance and enjoyment of their work when they have received training (Lane, Williams and Broecke, 2023). Across both finance and insurance services and manufacturing firms surveyed, almost 90 per cent of AI users who received training reported improvements in performance compared with around 70 per cent of those who did not receive any training. Similarly, more than 75 per cent of those who received training reported greater enjoyment of their work, compared with around 45 per cent of those who did not.

This suggests that supporting employers to invest in training could help workers adapt to changing skill demands associated with AI adoption, while generating wider benefits for workers.

Despite benefits for firms and workers, employer investment in workforce training in the UK has declined steadily over the past two decades, even as employers face persistent skills shortages and increasing demand for higher-level skills (Costa et al., 2023; Li, Valero and Ventura, 2020).

A number of factors help explain this decline, including increasing financial constraints, reduced government support (a decline in the Adult Education Budget), and potentially the increased importance of transferable skills (Li, Valero and Ventura, 2020). It is clear that reversing this decline will require policy to address market failures and barriers to investment. Economic theory and empirical evidence, as well as features of the UK context, suggest that there are a range of barriers to firm-level investment in training. Some of these are economy-wide, others apply more to certain IS sectors or subsectors, or certain types of firms within them (eg smaller firms vs larger firms) (see the Appendix 1 for a summary).

Training is costly to provide, and firms may be reluctant to invest where there is a risk that trained employees move to other employers before the benefits are realised. Evidence from the Industrial Strategy Advisory Council suggests that, alongside cost, businesses in the IS-8 sectors frequently cite lack of staff time as a major barrier to training. But, employers also identify wider structural challenges, including the complexity of the skills system, complex funding arrangements, weak coordination between employers and training providers, and difficulties accessing high-quality, relevant provision (Industrial Strategy Advisory Council, 2026).

These barriers reflect broader market failures that can lead firms to invest less in training than is socially optimal. Employers do not typically capture the full returns to their investment because trained workers may move between firms. This means many of the benefits of workforce development extend beyond the individual business. Information failures may prevent firms from identifying appropriate training opportunities or understanding their future skills needs (an issue that can be particularly acute during times of rapid technological change as is the case currently with AI), while smaller firms may face constraints that limit their ability to invest (Black, Skipper and Smith, 2023).

These factors imply that there is an important role for government intervention to encourage employer investment in skills. While the UK does have policies to support training, the evidence points to continuing skills gaps as a significant barrier to growth and it will need to do more to support the key growth sectors.

There is also a strong case for supporting economically inactive people to develop the skills needed to enter good-quality employment, particularly in sectors expected to experience significant growth and rising demand for skilled workers. Alongside encouraging employers to invest in the skills of their existing workforce, helping people move into employment through targeted investment and support will be an important component of meeting future workforce needs.

Across Organisation for Economic Co-operation and Development (OECD) countries, governments have introduced a range of policies designed to address investment barriers, including improving coordination between employers and training providers, developing sector-based partnerships, providing targeted financial incentives for employer investment

and supporting those not in work. This policy report reviews that international evidence and considers how these approaches could inform UK policy as government moves from designing to implementing Sector Jobs Plans under the Industrial Strategy.

Section 2 examines recent trends in employer investment in workforce training in the UK. Section 3 outlines the current UK policy landscape. Section 4 reviews international approaches to increasing employer investment, focusing on coordination and collaboration models, sector-based programmes and direct financial incentives such as subsidies and tax incentives. Business levies that fund training (such as apprenticeship levies), broader supply-side funding for education providers and demand-side interventions targeted at individuals are outside the scope of this note. Section 5 draws out policy implications, and Section 6 discusses the trade-offs involved and concludes.

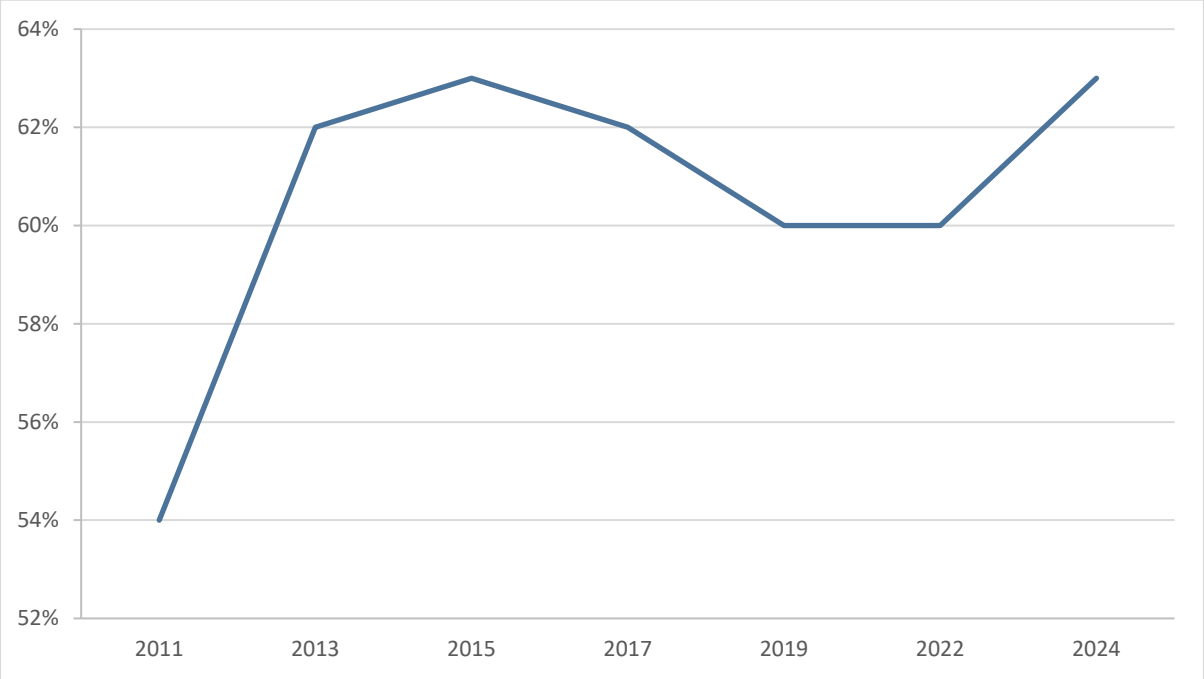
Recent trends in employer investment in training



2. Recent trends in employer investment in training

The volume of workplace training has stalled over the past decade. The latest data from the 2024 Employer Skills Survey (ESS), presented in Figure 1, show the proportion of workers who received any training in the 12 months preceding the survey in England. The share increased between 2011 and 2015, before declining over the following years. By 2024, it had recovered to its 2015 level, with 63 per cent of employees receiving some form of training.

Figure 1: Percentage of employees that received any training in the past 12 months in England



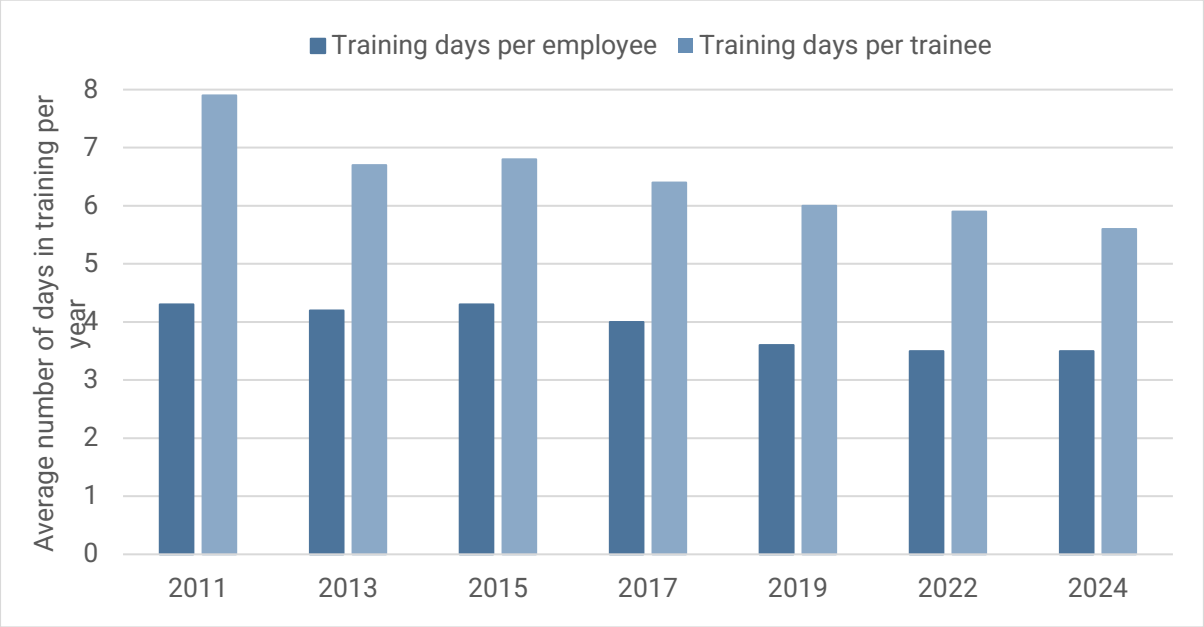
Source: Employer Skills Survey 2024.

But, this measure includes both general training, such as health and safety, and training specifically related to employees' jobs. Looking specifically at job-related training, the 2024 ESS shows that the proportion of sites providing such training has fallen and is now below its 2015 level. Evidence from the Labour Force Survey points to a similar longer-term decline. The proportion of workers reporting that they had received work-related training in the three months preceding the survey peaked at 29 per cent in 2002, before falling to 24 per cent in 2020 – a decline of 5 percentage points (Cominetti et al., 2022).

Firm-level data from the Employer Skills Survey shows the same trend across other measures of training. In 2024, 59 per cent of employers provided training for their employees over the last 12 months. This was 6 percentage points lower than the proportion providing training in 2011.

Employees who did receive training received fewer days on average. Figure 2 shows that the number of training days per employee fell by 19 per cent and the number of training days per trainee fell by 29 per cent between 2011 and 2024.

Figure 2: Average number of training days in the last 12 months

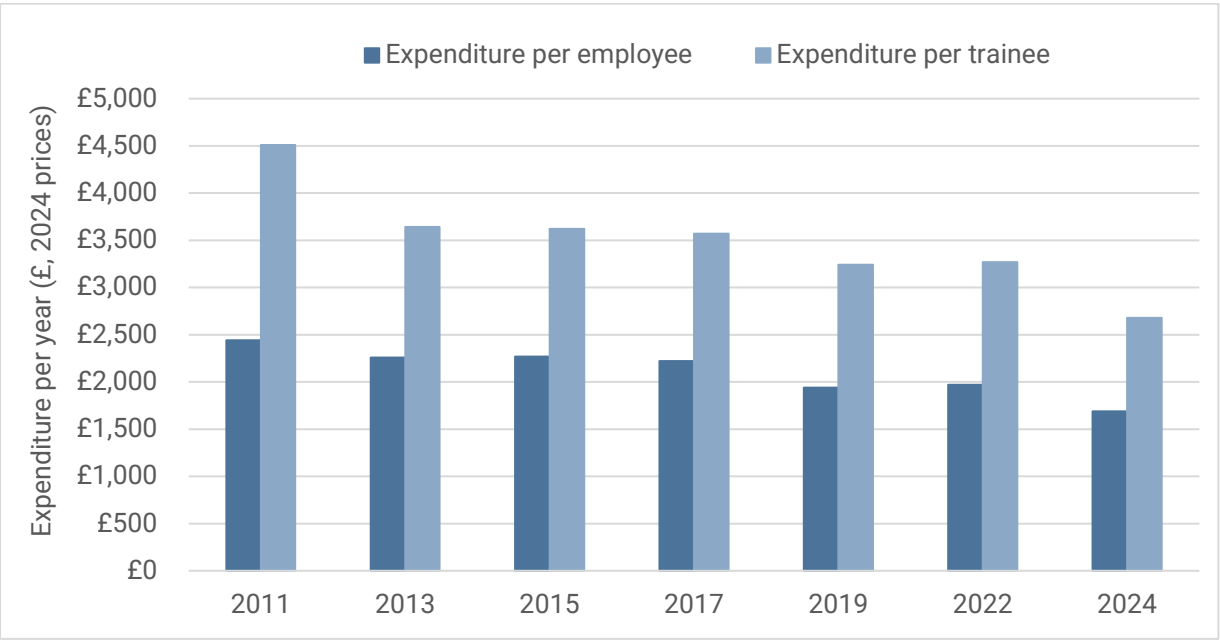


Source: Employer Skills Survey 2024.

Moreover, employer investment in training has witnessed a decline in real terms. The total investment in training in England fell by around 9 per cent between 2011 and 2024 in real terms, from £55.4bn to £50.5bn.

Finally, a decline can also be seen in the intensity of training, as measured by the average investment per employee or trainee. In 2011, the average investment in training per employee was over £2,400 in 2024 prices. In 2024, this fell to around £1,700 – a 31 per cent decline in real terms. This decline was starker for the average training spend per trainee, which fell by 41 per cent. Figure 3 shows that average employer expenditure on training per employee and per trainee in England.

Figure 3: Average investment in training per employee and per trainee in the last 12 months in England



Source: Employer Skills Survey 2024.

Investment patterns vary substantially by business size. Almost all (99 per cent) large employers provide training compared with 61 per cent of micro firms (Industrial Strategy Advisory Council, 2026). Figure 4 shows that the average investment in training per employee has fallen across all firm size groups since 2011, even after accounting for differences in firm size.

The decline has been particularly pronounced among larger firms: average investment per employee among firms with 100 or more employees fell from £2,010 in 2011 to £1,030 in 2024, a 49 per cent decline in real terms. Among the smallest firms, investment fell by 31 per cent over the same period, from £3,340 to £2,290 per employee.

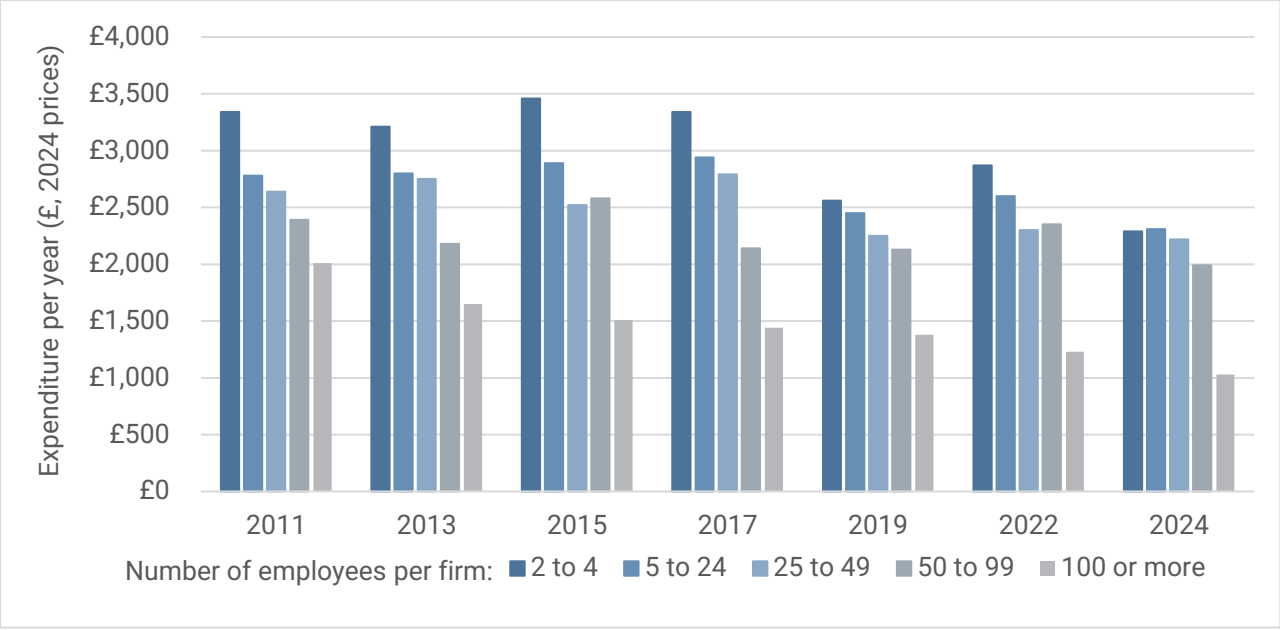
These trends are concerning, particularly for the UK's high growth sectors which currently face skills shortages. These shortages are set to be exacerbated, with jobs in occupations that are critical to the Industrial Strategy projected to grow by 1.8 million by 2035 (Department for Work and Pensions and Skills England, 2026).

Research shows that the training intensity is higher in the IS-8 sectors and has increased in real terms, but the proportion of businesses investing in training has declined in these sectors (Industrial Strategy Advisory Council, 2026).

Analysis from the Oxford Data Technologies and the University of Oxford's Centre on Skills, Knowledge, and Organisational Performance (SKOPE) found that upskilling even 10 per cent of employees working in the IS-8 sectors could yield approximately £9bn in cumulative GVA growth between 2026 and 2029 (Industrial Strategy Advisory Council, 2026).

Current trends point towards a growing mismatch between the scale of support needed to develop a higher-skilled workforce and the level of employer investment in workforce development. While the economic returns to training remain substantial, employers continue to invest less despite increasing demand for higher-level skills. This raises the question of whether existing policy interventions are sufficient to overcome the barriers to employer investment.

Figure 4: Average investment in training per employee in the last 12 months in England by firm size



Source: Employer Skills Survey 2024. Notes: Firm size is measured by the number of employees per firm.

The policy context in England



3. The policy context in England

The skills system has undergone significant reform over the past decade, with successive governments seeking to improve workforce skills, and raise productivity and growth. Recent reforms to skills policy have been framed around supporting the delivery of the Industrial Strategy, with a stronger emphasis on employer engagement, lifelong learning and sector-specific workforce planning, as well as addressing the increasing problem of people being "not in education, training or employment" (NEET). Many of these reforms seek to address barriers to employer investment by improving coordination across the skills system, increasing flexibility in training provision and strengthening links between employers, education providers and government.

Skills England has been established to provide strategic leadership across government on workforce skills, including identifying current and future skills needs, supporting Local Skills Improvement Plans (LSIPs), and strengthening employer engagement in skills policy.

The Post-16 education and skills white paper (DfE, DWP, and DSIT, 2025) set out a broad programme of reform across further education, higher education and adult learning, recognising the importance of lifelong learning and employer engagement. Building on this, the Lifelong Learning Entitlement introduces a more flexible post-18 student finance system that allows learners to access loan funding which can be spent on four years' worth of courses or modules across their working lives, initially focused on priority skills areas aligned with the Industrial Strategy. Similarly, the Growth and Skills Levy aims to provide employers with greater flexibility than the Apprenticeship Levy to also support a broader range of high-quality training opportunities alongside apprenticeships.

Recently, the government has developed sector-specific initiatives through the Sector Jobs Plans, to support the Industrial Strategy. These plans draw on workforce needs assessments to identify sector-specific skills challenges and set out actions for government, employers, training providers and other stakeholders to address them. For example, the Financial Services Sector Jobs Plan includes a Skills Compact through which participating employers commit to upskilling their workforce in areas such as artificial intelligence and other critical capabilities, alongside monitoring and reporting progress. Similarly, the Clean Energy Jobs Plan includes funding for regional skills pilots in three locations – such as the development of micro-credentials for clean energy sectors.

These initiatives demonstrate an increasing focus on aligning workforce development with the needs of priority growth sectors. But, they do not fully address the barriers identified by the Industrial Strategy Advisory Council, and discussed in the previous sections. Businesses, particularly SMEs, continue to identify funding pressures, staff time, difficulties navigating the skills system and limited access to relevant, high-quality provision as barriers to increasing investment in workforce training. Current provision does not offer the comprehensive support organisations are saying they need – especially in terms of funding and overcoming coordination barriers. As the government moves from designing Sector Jobs Plans to implementing them, there is an opportunity to consider whether additional policy interventions could complement existing reforms and further encourage employer investment in workforce skills. The following section reviews evidence from successful reforms in other OECD countries – designed to reduce the costs and risks of investing in training – and considers the lessons for UK policy.

Lessons from international models



4. Lessons from international models

The previous section shows that employer investment in workforce training has declined in the UK despite growing demand for higher-level skills. Many of the barriers identified by the Industrial Strategy Advisory Council require more comprehensive support that addresses coordination failures and information constraints. At the same time, the UK also requires policies that target the IS-8 sectors and ensure provision supports the Industrial Strategy and the associated Sectoral Job Plans.

Governments across OECD countries have introduced a range of policies to address similar challenges. This section reviews some international approaches, alongside examples from Wales and Greater Manchester, and considers the extent to which they could inform policy.

1. Coordination across employers, providers and governments

International models emphasise coordination and collaboration between government, employers and training providers at the national or regional level. While approaches differ in scope and institutional design, successful models tend to combine stable funding, strong sectoral orientation and forms of wider support that help align skills provision with labour market demand. Many operate through structured public-private partnerships, where public and private actors co-design and co-finance skills initiatives, including shaping training content and delivery.

This section draws on four case studies – three national programmes, drawing on Cabral et al. (2025) and one regional programme from Wales – to illustrate how different coordination models operate in practice and the conditions under which they can strengthen employer investment in skills.

- **Skillnet, Ireland**
  Skillnet Ireland is the national workforce development agency, operating as an arm's-length body of the Irish government and co-funded through the National Training Fund and direct employer contributions. It adopts a strongly employer-led model, funding and delivering upskilling opportunities across the economy, with a particular focus on sector-specific provision. Delivery is organised through a decentralised structure of employer-led networks governed locally, each bringing together firms within a specific sector or region. These are supported by Skillnet Ireland, which provides strategic oversight, quality assurance and guidance.

  In addition to programme delivery, Skillnet plays an advisory role within Ireland's skills system, contributing to labour market analysis and helping to shape national workforce and skills policy. Training programmes are often co-designed with providers and delivered flexibly, including through short courses, modular provision and blended learning.

  Skillnet works across sectors that align well with the UK's Industrial Strategy, including business and financial services, digital and technology, healthcare and MedTech, construction, manufacturing and the green economy.

Two features of the model are particularly relevant for UK policy. First, the co-funding requirement generates strong employer buy-in and helps ensure training remains closely aligned with sectoral needs. Second, the network-based structure allows sector-specific priorities to be addressed within a coherent national framework. While the UK already has high levels of employer involvement in skills design – in particular through co-designed apprenticeship standards, and through mechanisms like the LSIPs – and has Skills England to play a convening role, introducing a similar sector-based, co-investment model would require integration with existing structures. If aligned effectively, an employer-led network approach could help strengthen employer commitment to training in priority growth sectors.

- **SkillsFuture, Singapore**
  SkillsFuture Singapore (SSG), established by the Ministry of Education in 2015, is a statutory board managing the implementation of the national SkillsFuture movement. SSG acts as the central authority for lifelong learning and workforce skills development, bringing together policy design, funding, quality assurance and delivery oversight within a single institution. It forms partnerships with employers, unions, trade associations and professional bodies to co-design and deliver training initiatives, which are often sector-focused and project-based. A core feature of the model is support for modular and flexible provision, enabling individuals to access short courses where credits can be stacked together and topics are aligned with evolving skills needs.

  Evidence suggests that access to and benefits from SkillsFuture are not evenly distributed across the workforce, with participation concentrated among Professionals, Managers, Executives and Technicians (PMETs). This approach could be appropriate in key UK growth sectors that rely heavily on higher-skilled roles, similar to PMETs.

  More broadly, Singapore's highly centralised economic model differs significantly from the UK context, affecting how coordination and compliance are achieved. For the UK, the most transferable lessons lie in SSG's approach to modular and micro-credential learning. While this has required substantial public investment in Singapore, it has increased participation in training and created provision that is increasingly valued by employers, particularly in fast-moving sectors such as digital and technology. These lessons are directly relevant to UK programmes like the short courses as part of the reformed Growth and Skills Levy, and the rollout of modular learning through the Lifelong Learning Entitlement. Of course, it is important that training is properly accredited such that workers benefit from this even if they move employer.

- **Future Skills Centre, Canada**
  The Future Skills Centre (FSC) is a countrywide initiative that funds place-based skills development projects across five priority areas in Canada: pathways to jobs, technology and automation, SME adaptability, inclusive economic participation and sustainable jobs. A key responsibility of the Centre is to support underrepresented and disadvantaged groups through skills development projects. Rather than

delivering training directly, FSC operates as an applied research and innovation body, funding pilots and generating evidence to inform skills policy.

The governance model has been critical to FSC's effectiveness. Delivered through a third-party consortium involving Toronto Metropolitan University, Blueprint-ADE and the Conference Board of Canada, the Centre has been able to leverage partners' networks and expertise to build credibility and operate with agility across sectors and regions. This structure strengthened buy-in and enabled effective knowledge mobilisation.

There are clear parallels between the FSC and Skills England, but they differ in three important aspects: FSC operates with greater independence from government; it has a stronger mandate for applied research, evaluation, and knowledge mobilisation; and it is explicitly designed to invest in innovation, prioritising experimentation over delivery at scale. These features have shaped how FSC influences policy and practice, primarily through evidence and network-building rather than programme management. Investing in models like the FSC requires sufficient appetite for risk and trust on behalf of the UK and devolved national governments. This translates into more flexible reporting requirements and longer-term funding agreements.

- **Regional Skills Partnerships, Wales**
  The Welsh government works with four Regional Skills Partnerships (RSPs) to identify skills priorities at the regional and sub-regional level. RSPs are a central component of the Welsh skills system, providing labour market intelligence and employer insight that inform policy development, programme design and the deployment of skills funding. The RSPs have been cited across key strategies published by the Welsh government, helping to ensure that skills provision is aligned with wider objectives. They support the delivery of City Deals and Growth Deals across Wales, acting as strategic partners on employability and skills and aligning local investment with regional economic priorities. They also prioritise access to apprenticeships for their residents.

  Each RSP focuses on specific sectors that are important locally. For example, the Mid Wales RSP focuses on the following sectors in its Employment and Skills Plan: Advanced Manufacturing and Engineering, Agriculture, Construction and Energy, Digital, Food and Drink, Health and Social Care, Public Sector, Tourism and Leisure, and Transport and Logistics. The Cardiff Capital Region highlights six priority sectors, namely, Compound Semiconductors, FinTech, Cybersecurity and Analytics, Creative Economy, MedTech, and Energy and Environment.

  There are clear points of comparison with England's Local Skills Improvement Plans (LSIPs). While LSIPs have a stronger statutory footing, their scope is narrower, focusing primarily on post-16 technical education. A key lesson from the Welsh model is the value of a more holistic, whole-system approach that integrates skills planning with local growth and employability strategies. An application of this model to England could involve strengthening the strategic role of LSIPs by broadening their remit and deepening alignment with local economic development, while preserving statutory duties and a strong emphasis on data-driven planning.

These examples suggest that effective coordination depends on more than just bringing different stakeholders together. Successful models can create lasting institutions and relationships through which employers can articulate shared skills needs, providers can respond to those needs, and public actors can coordinate funding and wider support. Sectoral and place-based structures can strengthen this process by creating a clear focus for collaboration, while stable institutional capacity helps build the trust and relationships needed for sustained employer engagement. National and local governments in England can draw on these lessons to assess whether existing institutions can be used to strengthen coordination with employers. Greater Manchester provides a useful example, set out in Box 1, of how sustained coordination and collaboration between stakeholders can build the institutional capacity needed to support a more joined-up skills system.

Box 1: What works evidence from Greater Manchester

What works: coordination between multiple stakeholders in Greater Manchester

In England, effective devolution has been underpinned by coordination and collaboration between local and regional actors, alongside sustained engagement with local employers. Greater Manchester provides an example of how this approach can work at a regional level.

Greater Manchester secured a devolution deal in 2014, but this was supported by significant institutional capacity built through years of collaboration between its constituent authorities. This provided a foundation for developing a shared vision for the city-region and coordinating activity across local government and other regional actors. Universities also work closely with local government through structures such as the Greater Manchester Civic University Board, while employers, skills providers and public bodies are embedded within local governance arrangements (Bahl and Overman, 2026).

Employer coordination has been strengthened further through the creation of the Employer Integration Board (EIB), established jointly by the Greater Manchester Combined Authority and Greater Manchester Chamber of Commerce. The board brings together business leaders from seven key sectors to provide sector insight, inform the Local Skills Improvement Plan and encourage more collective involvement from employers in the local skills system. It is supported by an Employer Support Action Network comprising more than 60 organisations, extending employer engagement beyond the board itself.

Where strong collaborative relationships already exist, the cost of collective action also falls. Employers can be convened quickly around a new priority because the channels and the trust are already in place, and they are more willing to participate because the governing institutions have a track record of delivery. This kind of collaborative environment may also raise employers' appetite to take risks and trial new approaches.

As devolution extends to more of the country, other places will need to draw on these lessons. But not every place has the same institutional foundations, and building political cooperation, administrative capacity and strong civic partnerships takes time. Devolution can provide powers and resources, but it cannot instantly create the conditions needed to use them well.

2. Sectoral approaches for addressing skills shortages and needs

Recent international reviews of training and upskilling policies, such as Cabral et al. (2025) and Black, Skipper and Smith (2023), have focused on examples of national coordination models, but the evidence on sectoral employment programmes has received comparatively little attention. This category of programmes – largely based in the United States – is designed to train jobseekers for employment in specific industries with strong local labour demand and clear opportunities for progression. They are typically financed by philanthropy and employer investment, with limited government (federal or state) support. While the composition varies across programmes, they are characterised by significant employer involvement through corporate partnerships, fees for participation, time spent co-designing programmes and through commitments to offer job pipelines at the end of training programmes.

Sectoral training programmes typically focus on low-income adults and individuals from disadvantaged backgrounds. The core premise is that skills investment is most effective when it is strategically directed towards sectors with sustained demand and higher wage potential, rather than delivered through generic training provision. These programmes are usually organised at a regional level, reflecting the fact that labour markets are geographically bounded and that coordination between employers, training providers and public agencies is most effective when anchored in place.

A defining feature of sectoral employment programmes is the provision of comprehensive and integrated support.[2] Many participants face multiple barriers to employment, which the sectoral programmes address through upfront screening for motivation and basic numeracy and literacy – allowing resources to be focused on candidates most likely to benefit – alongside occupational training that leads to recognised certification, career readiness and professional skills training, and "wraparound" support in the form of coaching, stipends and practical assistance. Strong and sustained employer engagement is central to this model, with employers involved in shaping curricula, providing work-based learning opportunities and offering direct hiring pathways. By focusing explicitly on industries with strong current and projected demand, they reduce the risk of training misalignment that has characterised some publicly funded programmes.

These programmes have a strong empirical base in the United States, where programmes have targeted a range of industries with higher paying jobs and opportunities for advancement, many of which are relevant in the context of the UK's Industrial Strategy and broader skills needs (eg IT, manufacturing, construction, healthcare and financial services). Four randomised controlled trial evaluations covering nine programmes consistently find positive impacts on participants' labour market outcomes (Lee and Garau, 2022). Across all programmes evaluated, participants experienced higher overall earnings, were more likely to be employed, worked more consistently and were more likely to hold higher-wage jobs with access to benefits. Notably, earnings gains from high-performing sectoral programmes are among the largest observed in evaluations of US training and employment initiatives. These gains are driven primarily by increased access to higher-paying jobs within targeted sectors, rather than by increases in hours worked or overall employment rates, underscoring the importance of sectoral targeting and occupational upgrading.

[2] See a rapid review, Amin et al. (2024), that finds intensive engagement with employers on programme design and greater support when connecting participants to job opportunities as two key differentiators of success programmes.

All nine programmes evaluated provide technical skills training, career readiness training and mentoring, and provide wraparound support for the participants (Lee and Garau, 2022). Three programmes[3] are discussed below:

- **Project QUEST, San Antonio, Texas**
  QUEST works with local employers to identify future skill needs and recruits low-wage workers to train for those roles, primarily through community colleges and professional training providers. Rather than delivering training directly, QUEST focuses on intensive support to help participants complete demanding programmes, combining remedial education, career coaching, financial assistance and peer support. A rigorous evaluation found that participants earned significantly more than comparable non-participants, with impacts persisting over more than a decade; by year nine, average annual earnings were over $5,000 higher. These long-term gains are among the most sustained ever observed in a US workforce development evaluation and highlight the importance of targeting higher-level credentials and sectors with genuine advancement opportunities.

- **Year Up, Locations across the United States**
  Year Up is a national sectoral employment programme targeted at urban youth aged 18-24, operating in eight metropolitan areas. The programme provides six months of full-time occupational skills training in the IT and financial services sectors, followed by six-month internships, alongside intensive wraparound support including stipends, mentoring and professional skills development.

  It is delivered through local offices that operate alongside existing employment and training providers. Local offices are supported by a national staff team that provides operational support and oversight, while each office is led by an executive director and advised by a local board drawn from business, philanthropic and education leaders.[4] Evaluations show a large and sustained impact on earnings and employment, with participants seeing a 30 per cent increase in earnings by year 7, relative to the control group. Longer-term analysis finds that the programme delivers net social benefits, returning $2.46 for every $1 of public investment (Fein and Dastrup, 2022).

- **Per Scholas, Locations across the United States**
  Per Scholas is a programme for low-income workers, focused on the information technology sector. It was started in the Bronx, New York and has since been expanded to other sites in the United States. Per Scholas works directly with employers to design bootcamp-style courses. Participants receive 15 weeks of occupational skills training in IT, career readiness services and job development and placement services.

  The programme uses extensive, upfront screening to ensure the candidates enrolling are looking to advance in the labour market, resulting in younger and more educated candidates. According to the Annual Report, the programme trained over 5,500 professionals across 25 cities in the United States whose income rose 2.5-fold on average.[5]

[3] For more programme examples, see Katz et al. (2022),
[4] See Fein et al. (2021) for more details.
[5] For more information, see: https://perscholas.org/wp-content/uploads/2026/08/Per-Scholas-Annual-Report-2026.pdf

An economic impact analysis[6] also found large, positive and statistically significant impacts on average earnings. In the data available for the seven years of the follow-up period, the Per Scholas programme appears to show a strong and consistent impact on average earnings, increasing the proportion of people who earned at least $40,000. This evaluation, however, is based solely on the Bronx site and does not consider other locations.

Another evaluation[7] of the Per Scholas programme focused on its role as a recruitment tool for businesses. Employers who partnered with Per Scholas, particularly SMEs, were more likely to gain substantial savings (estimated to be $1,300-$1,800 per employee per year) through reduced turnover and more affordable recruitment. They also were more likely to reach a diverse pool of candidates and fill most of their hiring demand.

Box 2: Design attributes of sectoral training programmes

Key design features of successful sectoral training programmes

The key feature that distinguishes these programmes from general workforce development programmes is the opportunity for progression into employment where programme requirements are met. There are also opportunities for internships and placements to be converted into full-time roles.

The screening process tends to be rigorous to ensure that the programme reaches those who will benefit the most and are most likely to fulfil the requirements of the programme.

Other design features that contribute to successful sectoral training programmes (Fein et al., no date) are:

- Designing a responsive, comprehensive curriculum.
- Developing participants' career readiness through "durable skills" (non-technical, professional skills).
- Comprehensive support to address barriers (ranging from job placement and retention services to counselling, mentorship and transportation assistance).
- Earning industry-recognised credentials.
- Providing work-based learning opportunities.
- Strategic and efficient performance measurement of the programme itself.

Box 2 draws together some of the features of sectoral training programmes that are seen as key to their success. It is important to note that the evaluations referenced here have high "internal" validity, but they are focused programmes, implemented by experienced practitioners and it can be difficult to replicate success in different contexts. Nevertheless,

[6] For more details on Per Scholas and evaluations of other WorkAdvance programmes, see Kanengiser and Schaberg (2022).
[7] See Adams et al. (2018) for more details.

the success of these programmes offers lessons for the UK in the development of Sector Jobs Plans.

Elements of the general approach are in place in the UK. For example, the Sector-based Work Academy Programme (SWAP), expanded in 2020. This programme enables unemployed individuals to gain skills and work for six weeks in a specific sector. An impact assessment of the SWAP found that the programme had a positive impact on all groups examined (Department for Work and Pensions and Government Social Research Profession,2025). More recently, the Energy and Utility Skills Partnership has set up a Sector Entry Pilot with the Department for Work and Pensions. This programme is similar to SWAP but focuses specifically on accredited training that helps new entrants become work ready and gain safety skills specific to the sector.[8]

The UK also has other institutions and programmes that could be built upon in specific contexts. For example, Skills England's focus on employer demand in priority sectors and its focus on mobilising and co-creating training offers with employers and local partners.[9] And the Skills Bootcamps programme is focused on developing skills that employers are looking for. But, Skills Bootcamps are focused on short-term training (between 12-16 weeks) and typically do not provide the depth of wraparound support, post-placement retention services or progression pathways that drive sustained earnings gains in sectoral employment models. Similarly, while Skills England has a convening role, it does not yet function as a sectoral intermediary with the mandate or resources to coordinate employers, further and higher education providers, and community organisations around shared workforce objectives. And while Local Skills Improvement Plans are another lever to improve coordination, up to now, their remit has been largely confined to post-16 technical education.

3. Financial incentives for employer investment in skills

So far, we have focused on programmes that have primarily sought to improve coordination in the skills system to encourage more employer investment and engagement, though some include a form of subsidy including to individuals. Financial incentives directed at employers are another common policy tool used to stimulate investment in training.

International evidence, however, offers important considerations around deadweight, effectiveness and targeting (Black, Skipper and Smith, 2023). This section reviews three main approaches – vouchers and subsidies, tax incentives, and job rotation, drawing out lessons for UK policy design.

- **Vouchers, grants, and subsidies**
  Subsidies for training existing employees are most commonly paid to employers rather than directly to workers and may be broad-based or targeted at specific firms, sectors or groups. An important trade-off in their design is between simplicity, with low administrative costs but higher deadweight loss, or greater targeting, which would increase administration costs but cut down the deadweight loss.
  Similar concerns apply to training vouchers, with evaluations across multiple countries finding high deadweight losses.

[8] For more information, see: CEO-Council-agenda-and-pre-reads-December-2025.pdf
[9] Letter from the Rt Hon Pat McFadden MP, Secretary of State for Work and Pension to Skills England titled 'Skills England priorities for 2025-26', October 2025.

The SLIM Subsidy Scheme in the Netherlands is an example of a training subsidy (Cabral et al., 2025). Launched in 2020, it covers up to 80 per cent of the training cost for small enterprises and 60 per cent for medium-sized enterprises, and includes capacity-building support such as skills audits, careers advice, development of learning methods and work-based learning placements. Monitoring and evaluation are embedded in the scheme's governance, but early evidence shows that most participating firms were already investing in training, highlighting persistent deadweight risks and challenges around outreach. As there is inevitable deadweight in all types of subsidy schemes (not just ones pertaining to training), for the benefit to outweigh the costs, the subsidy must encourage considerable additional training. This can be challenging in practice.

Schemes that are less targeted and associated with high levels of deadweight also tend to disproportionately benefit higher-skilled workers. If the objective in the UK is to support growth sectors that typically employ higher-skilled labour, this distributional pattern may not pose an issue. Any UK adaptation of the SLIM subsidy would need simple application processes, plain-language guidance and delivery through credible bodies (eg sector organisations or chambers of commerce) to avoid skewing uptake towards already-engaged employers (Cabral et al., 2025).

Portugal, for instance, offers demand-led grants through a process of application scoring with public oversight (Martins, 2021). Evaluations found significant positive effects on take up with limited deadweight, alongside positive impacts on sales, productivity, employment and exports. This suggests that tightly designed financial incentives, particularly those with strong governance and targeting mechanisms, have a higher likelihood of delivering additional training.

- **Tax incentives**
  Tax incentives are widely used to encourage employer training investment: these include tax allowances, credits, exemptions and enhanced deductions. Their principal advantage is that they build on existing tax systems, keeping administrative costs relatively low for both governments and firms. They are easier to access as compared with subsidies and there is likely to be more awareness among firms (OECD, 2017). But, one might argue that tax incentives are a blunt instrument as they are difficult to use to steer investment towards specific skills, sectors or workers. There is a risk that they could generate substantial deadweight loss (Black, Skipper and Smith, 2023).

  Austria is an example of a country that offered a training tax allowance, which was put in place in 2000. This allowed for a deduction of up to 120 per cent of external training costs, and internal costs were allowed under certain conditions.[10] A tax credit of 6 per cent of the actual expense was offered from 2002 to businesses that did not make sufficient profits to benefit from the tax allowance.[11] But, according to

[10] For more details, see: https://www.cedefop.europa.eu/en/tools/financing-adult-learning-db/search/training-tax-allowance
[11] See Cedefop panorama series (2009)

the Austrian Education Support Database,[12] this training tax allowance was abolished without replacement after a tax reform in 2015-16, and this was due to a perceived lack of effectiveness in increasing training activities in companies.[13]

One way of limiting deadweight is targeting tax incentives towards specific firms or worker groups in line with policy priorities. Italy, for example, has been implementing tax credits to promote digital transformation in businesses. A measure in place from 2018 to 2023 ("Training 4.0") sought to equip workers with skills in data and computing, as part of a broader "Transition Plan 4.0" which included broader tax incentives for tangible/intangible investment in advanced technologies and which came to an end in 2023.[14]

Training 4.0 aimed at providing support for high-quality training to help design and manage the integration of digital technologies. Under this, 86 per cent of investment initiatives for training were undertaken by micro and small enterprises. The final evaluation report (Bank of Italy and Italian Ministry of Economy and Finance, 2026) shows that the take up of tax credits was concentrated in investments in tangible assets and firms made limited use of other components, like training, on offer.

As a result, the available evaluation evidence does not allow firm conclusions to be drawn about the impact of training incentives as it focuses on tax credits for investment in tangible assets (Bank of Italy and Italian Ministry of Economy and Finance, 2026). In 2024, Italy introduced the Training Credit 5.0 as part of the Transition 5.0 plan, focusing on both digital and energy transitions. This credit is linked to relevant capital investments, and builds in more restrictions in terms of what is covered.[15]

While targeted schemes can help reduce deadweight and focus support on strategic priorities, it is important to consider potential unintended effects. For example, a Dutch training policy, where employers could claim an extra deduction when they trained employees over age 40, had unintended substitution effects. This led to employers postponing the training of workers who were just below age 40 until they met the criteria (Leuven and Oosterbeek, 2004).

Currently in the UK, training is deductible for tax purposes as a normal business expense. Any enhanced human capital tax credit, as suggested in the Economy 2030 Inquiry (Costa et al., 2023), the LSE Growth Commission and other initiatives[16], would need to address the design challenges highlighted, particularly around additionality.

[12] Details are from the Education Support Database (Bildungsförderungsdatenbank) by the Bindungsförderungen in Österreich website.
[13] See: https://www.cedefop.europa.eu/en/tools/financing-adult-learning-db/search/training-tax-allowance
[14] More details can be found on the Ministry of Enterprise and Made in Italy website as well as CEDEFOP's Financing adult learning database: Training tax credit 4.0.
[15] For more details on specific training topics, course duration and certification requirements and eligible expenses, see: https://www.cedefop.europa.eu/en/print/pdf/node/153090
[16] This includes the British Academy Skills Working Group (Blundell et al. 2025). Various think-tanks have proposed similar policies such as the Learning and Work Institute (Evans, 2022) who propose a Skills Tax Credit.

For instance, it could be designed to target accredited training where there is an alignment with the needs of key sectors and where barriers to skills investment are high. Alternatively, targeted skills incentives could be designed to enhance incentives for investing in capital. The Italian Training Credit 5.0 is one form of this. A related approach was adopted in the US Inflation Reduction Act of 2022 – where investment tax credits were enhanced for companies taking on apprenticeships (and meeting other labour standards).[17]

- **Job rotation schemes**
  Job rotation schemes address the cost of employee absence by subsidising temporary replacement workers, typically unemployed people, for employees who are sent for training. This can deliver dual benefits as it involves upskilling existing employees while providing work experience and employment pathways for unemployed substitutes, some of whom transition into permanent roles.

  This type of approach was implemented nationally in Denmark from 2007.[18] Employers generally valued the scheme, particularly in sectors facing recruitment difficulties (Styrelsen for Arbejdsmarked og Rekruttering, 2021). But Jobcentres reported challenges in finding suitable substitutes and highlight the administrative burden involved. These constraints suggest job rotation may be best suited to targeted, place-based delivery rather than universal rollout. For the UK, this model might be relevant for combined authorities and city regions, particularly in sectors with persistent vacancies or acute skills shortages.

- **Procurement conditionality**
  Government procurement can be used to increase employer investment in training by explicitly incorporating skills and workforce development requirements into public procurement contracts. In this case, governments can use their purchasing power to drive employers' investment in training, rather than funding training directly. Requirements can be tailored towards specific sectors or towards specific groups of workers.

  Adopting this approach, the Australian government introduced a Skills Guarantee in 2024 to tackle skills shortages and improve gender balance in the construction and ICT sectors.[19] The policy applies to government procurements for relevant projects valued at A$10mn or more and was a key commitment under the government's jobs plan. For major ICT projects, contractors are required to ensure that at least 5 per cent of all labour hours are undertaken by learning workers. A 10 per cent target exists for apprentices/trainees working on major construction projects.

  There have also been cases where local governments have embedded workforce development goals into their procurement processes. For example, in Sydney, those submitting tenders need to include actions they will take to support the city's

[17] For detail see: Congressional Research Service (2026), R48428, available at https://crsreports.congress.gov
[18] More details about the programme can be found here: https://static.eurofound.europa.eu/covid19db/cases/DK-2010-52_2481.html
[19] For more information, see: https://www.dewr.gov.au/australian-skills-guarantee

workforce development goals in their proposals. Contractors are also required to set targets and report their performance against them throughout the project lifecycle (OECD, 2019). States in Switzerland also embed social responsibility measures into their procurement targets to support skills development – particularly among disadvantaged groups (OECD, 2019).

In the UK, at a regional level, the Greater Manchester Combined Authority has made social value a key part of its commissioning process, where companies must support the regional Good Employment Charter[20] and pay the real living wage to be considered for procurement contracts.

At the national level, central government has set out statutory requirements in the National Procurement Policy Statement which allow wider policy objectives to be included in public procurement contracts, including those related to skills and net zero.[21] Alongside this, the social value model has been updated to ensure organisations working on government contracts demonstrate their commitment to key policy objectives, include skills-related outcomes in procurement.

In August 2026, the government announced reforms to public procurement that will place greater emphasis on jobs, skills and economic opportunities when awarding government contracts. Under the proposed changes, the weighting given to the social value criteria in contracts will increase from 10 per cent (which is the current weight) to 20 per cent for contracts worth £5mn or more. Those bidding for procurement contracts will be able to gain additional credit for creating local good jobs and by offering training.[22]

This represents an important shift away from using procurement to secure goods and services at the lowest cost and moves towards models like those seen in Australia. But, the effectiveness of this approach will depend on how the requirements are implemented. To be successful, procurement conditions will need to establish clear, measurable and enforceable expectations around training and workforce development. There is also a case for targeting requirements towards sectors and occupations where skills shortages are most acute, while ensuring that requirements remain proportionate to contract size and do not create unnecessary barriers for smaller suppliers.

Overall, financial incentives of different types are a popular method for incentivising employer investment in skills. The evidence on tax incentives in particular highlights the importance of targeting financial incentives to specific sectors or groups of individuals to minimise deadweight. If broad-based training is covered by financial incentives, employers are likely to use financial instruments to provide basic training, such as health and safety, that would have happened anyway, rather than investing in, job-related training.

[20] The Greater Manchester Good Employment Charter is a voluntary membership and assessment scheme that was created to improve employment standards across employers.
[21] For more details, see: https://www.gov.uk/government/publications/procurement-act-2023-guidance-documents-plan-phase/guidance-national-procurement-policy-statement-html
[22] Further details published here: https://www.gov.uk/government/news/government-orders-that-public-spending-must-back-british-jobs-and-skills-in-every-postcode

Targeted incentives for human capital investment could play an important role in sectors likely to be significantly affected by technological change – and in particular, the adoption of AI. Designed well, such incentives could encourage employers to invest in skills that enable the adoption of labour-augmenting AI applications (those that complement workers), instead of those which displace workers.

Policy implications and recommendations



5. Policy implications and recommendations

Our review of the evidence has identified some successful models of relevance for the UK. It is likely that no single policy lever is sufficient to increase employer investment in skills at scale, and the evidence points to a mixed approach – combining employer-led coordination, sectoral focus and targeted incentives, while allowing flexibility for local adaptation within a coherent national framework on education and skills more broadly.

Indeed, as noted by the OECD (2017) – many skills shortages and mismatches need action from all stakeholders to be resolved. Given extensive policy churn on skills in recent years, and risks of adding complexity with new initiatives, the key implication of this review is not to seek to replicate specific models seen elsewhere, but to integrate lessons and tailor them to the UK's institutional context.

We recommend nine actions for national and local government, and employers across England, organised around three policy areas where we have reviewed international experience.

Our nine recommendations are set across the three broad models where we look at international evidence, and are given below:

Coordination across employers, providers and governments

Effective approaches for meeting skills needs require coordination across government departments, places, employers and training providers. National and local policy should be better aligned, with clearer mechanisms for bringing partners together around shared skills priorities.

1. **Strengthen cross-government policy coordination**

   Policies to encourage more employer investment in skills cut across multiple areas of government policy – across education and skills, industrial strategy, innovation, taxation, labour market and immigration policy – and as a result this issue falls within the remit of many government departments. Responsibility also runs vertically: skills policy is devolved in certain respects, reflecting differences in local labour market conditions, and depends on the input of combined authorities. This creates a risk that interventions are developed in isolation, both across Whitehall and between national and local government, without a clear assessment of how they interact or whether they collectively provide sufficient incentives for employers to invest in delivering skills for growth.

   A forum convening national and local government to align policy on the labour market and skills already exists. The Labour Market Evidence Group (LMEG) brings together the Industrial Strategy Advisory Council, Migration Advisory Committee, Department for Work and Pensions and Skills England, alongside representatives from the devolved governments, and is tasked with developing a shared evidence base and improving alignment between labour-market, migration, skills and industrial strategy policy.

But two gaps limit its usefulness for the development of a holistic approach to increasing employer investment in skills. First, the Department for Business, Innovation, Science and Trade is not directly represented in this forum. The department is responsible for delivering the Industrial Strategy and since July 2026, the Future of Work brief. Since July 2026, the government has appointed a Minister for the Future of Work in this department – linking together work and industrial strategy more explicitly, with ministerial powers supporting both agendas. Secondly, the LMEG is primarily an evidence and coordination forum and does not have responsibility for making or owning policy recommendations.

We therefore recommend that a dedicated policy workstream be created to produce actionable recommendations to government rather than shared evidence alone, and that a named minister be given responsibility for owning the resulting package. This could include stakeholders from LMEG and the Department for Business, Innovation, Science and Trade.

Better coordination is also needed between national and regional government. Mayoral combined authorities and the devolved governments hold significant levers over adult skills provision. The establishment of No. 10 North places part of the centre of government outside Whitehall, which may create opportunities to convene national and local partners on skills in a way that has previously been difficult. A standing mechanism for exchanging evidence and practice between places – what has been tried, what worked and under what conditions – would help avoid parallel experimentation without sharing lessons.

These issues will become increasingly important as further devolution takes place across more areas of the country, where success will depend on collaborative and coordinated working across national and local government.

2. **Align the Local Skills Improvement Plans with the Industrial Strategy and local growth plans.**

   The Local Skills Improvement Plans already provide an employer-led planning mechanism with a statutory footing, but their remit is largely confined to post-16 technical education.

   Aligning them more closely with Industrial Strategy priorities and embedding higher education systematically alongside further education and employers, would move the system towards the whole system approach, without creating a new structure or body. The latest guidance on LSIPs provides an opportunity for the higher education sector to work more closely with the further education institutions.

3. **Give Skills England the capacity to convene partners and build evidence**

   Skills England has a convening role but does not currently function as a sectoral intermediary with the mandate or resources to coordinate employers, further and higher education providers and community organisations around shared workforce objectives.

We recommend expanding the role of Skills England to have a stronger mandate for applied research and knowledge mobilisation, and an explicit remit to invest in innovation – both responsibilities of the Future Skills Centre in Canada. This means equipping Skills England with the resource and firepower to convene partners, support intermediaries, and fund pilots and evaluation to build the evidence and help channel support to where impact is greatest.

Sectoral approaches for addressing skills shortages and needs

Sector-based approaches can help overcome coordination and investment barriers by encouraging employers to collectively invest in training associated with employment opportunities within a certain sector. Existing programmes in England can be used more strategically to support these partnerships.

4. **Make sector-based coordination the organising principle for investment**

   The evidence considered in this review supports sectoral approaches in which employers collectively shape provision and co-invest in training aligned to long-term demand, and where collaborative approaches address sector specific barriers to training.

   There are some key characteristics that distinguish successful programmes from the rest: a dedicated intermediary organisation with its own staff and funding; employers' involvement in designing the curriculum; commitments to interview or hire on completion; and wraparound support delivered alongside training. Programmes without the intermediary and wraparound elements did not produce comparable earnings effects.

   While lessons from what has worked in US sectoral training programmes would need to be tailored to specific UK growth sectors and places, a clear finding from robust evaluations is that it is the holistic nature of the programmes that has contributed to their success. Given that employer buy-in is so crucial, successful programmes must demonstrate value for employers. A deep understanding of the conditions and ingredients for success is needed, and it can be hard to replicate successful models in new contexts.

   We recommend that the UK adopt this holistic approach to sectoral training partnerships, and target sectors where there is potential for skills demand to grow over the next decade or so and where there are currently barriers to investment that policy can address. Skills England, a focus on the Industrial Strategy and the associated Sector Jobs Plans provide a natural vehicle for this process.

   For example, the Financial Services Skills Compact and the Clean Energy regional pilots already contain elements of the model. The question at implementation is whether they will be resourced to provide the wraparound support and intermediary capacity that the evidence identifies as decisive.

As these programmes tend to be employer-led and privately financed, we suggest beginning to build programmes with large organisations that have multiple roles across multiple locations. The programmes can then be modified to meet the local context within this framework.

5. **Reorient existing instruments rather than creating new ones**

Skills Bootcamps already target employer-identified skills and are the closest existing UK analogue to the US sectoral model. But they lack the intense wraparound support, post-placement retention services and progression pathways that drive sustained earnings gains seen in the evaluated sectoral training programmes. There is a case for further development of this programme (or a similar model) towards high-growth sectors and framing them within a sector-led model, with provisions for greater support.

The short courses becoming available under the reformed Growth and Skills Levy present a comparable opportunity. As eligibility is already confined to designated critical skills areas, we recommend continuing to build on this approach and also consider other areas where it can be applied.

We further recommend that modular provision leads to recognised qualifications that allow workers to build skills incrementally while making it easier to transfer qualifications across employers and roles, as shown to be important by Singapore's experience.

6. **Enable places to pilot sector partnerships**

US sectoral programmes are organised regionally because labour markets are geographically bounded, and coordination works best when anchored in place. National and regional governments can leverage places with devolved administrations in the UK to be the testbeds for sectoral partnerships.

Piloting should be concentrated in priority growth sectors and in places where relationships between employers, further and higher education are already strong, since the evidence suggests these relationships are a prerequisite for success.

Coordination with Jobcentres and wider Department for Work and Pensions provision will also matter, particularly for programmes targeting people currently out of work. US evidence is strongest for programmes targeting those currently out of work, and this is where the machinery of referral, screening and support is not currently joined up in the UK.

Job rotation schemes, such as those seen in Denmark, in sectors where employers are facing recruitment difficulties may be an effective tool for getting more people into meaningful employment. This model is a strong candidate for place-based testing on the same footing.

7. **Broaden the financing model to connect with the social impact investment agenda**

   Sectoral employment programmes in the United States are typically financed through a model that combines public funding, employer contributions and philanthropic or social investment. This helps share risk and sustain wraparound support.

   In the UK, there is an opportunity to align sectoral employment programmes with the government's social impact agenda, through blended finance models – particularly where programmes deliver measurable gains in employment and earnings for disadvantaged groups. The Office for the Impact Economy could provide an institutional anchor for exploring and testing these models. The Impact Investing Institute's place-based agenda in the UK could also be a good starting point for co-creating and financing local sectoral employment programmes.

Financial incentives for employer investment in skills

Financial incentives and public procurement can be used to address barriers to employer investment, particularly where the benefits of training extend beyond individual firms or where employers face high upfront costs.

8. **Target financial support where the barriers are the greatest**

   Financial support through government grants or tax incentives is a common tool for supporting employers' investment in skills. But the fiscal constraints facing the government mean that broad-based financial support for employer training is not realistic, and untargeted support would in any case carry risks of significant deadweight.

   We recommend a staged approach. First, pilot financial instruments in a small number of sectors or places where the barriers to investment and growth opportunities are greatest – as informed by the Sector Jobs Plan process and continued policy development. Evaluation should be designed into the process from the outset. Second, direct further funding towards the instruments, sectors and places where evaluation demonstrates genuine additionality.

   When it comes to barriers, these will be particularly high where, for example, skills are highly transferrable (eg digital or AI); where financial constraints are more binding (smaller firms); or where there is some uncertainty over skills requirements in the face of rapid technological change. There are areas where market failures are strongest and where additional public support is most likely to generate investment that would not otherwise take place, and as a result, where piloting can begin.

   In addition, given the strong complementarity between investments in skills and other forms of capital, there is a case for linking existing tax incentives for business investment to commitments to workforce training. Italy, for example, has combined tax incentives for organisations investing in capital related to the digital and green transition with wider support for complementary investments in training. Similarly,

the US Inflation Reduction Act offered enhanced tax incentives for investment in building, repairing and maintaining clean energy infrastructure where there was use of registered apprenticeships providing a specified share of labour hours associated with activities receiving the tax benefit.

There are lessons here for the UK across both green and digital transitions. Targeted incentives could help deliver key green skills, seen as critical to delivering clean energy and associated supply chains (Department for Energy Security and Net Zero, 2025). And financial support for digital skills investment, linked to technology adoption support (OECD, 2026), could help ensure that firms have the capacity to use new technologies effectively, support workers to adapt to changing job requirements, and could help steer AI adoption towards labour-augmenting applications rather than displacement.

9. **Use public procurement to drive employer investment in skills**

   At a national level, specifying measurable skills outcomes within procurement contracts, and monitoring delivery against these commitments are important for ensuring conditions are met.

   Regional governments could also use public procurement to embed skills and employment conditionalities within contracts, building on existing national social value requirements. This could include giving greater weight to commitments to training, apprenticeships and workforce development when awarding contracts, particularly in sectors identified as strategic priorities in LSIPs or IS and in occupations where persistent skills shortages have been identified.

   The scale of these requirements should be proportionate to the value of contracts typically awarded in each region. For example, for the highest-value contracts in priority sectors, regional governments could allocate 20 per cent of the contract award weighting to social value, including demonstrable commitments to skills and employment.

   This approach would build on existing regional initiatives such as Greater Manchester's use of the Good Employment Charter and the Real Living Wage in procurement contracts, but go beyond employment standards alone by using public spending to directly increase employer investment in skills.

In addition, an overarching priority is to continue building the evidence base on what works to increase employer investment in skills.

A deeper understanding of the barriers to employer investment is needed to ensure that policy interventions are targeted effectively, across all three areas identified above. These barriers are likely to vary substantially across sectors and places, reflecting differences in the transferability of skills, firms' access to finance, the extent of uncertainty over future skills needs. Policymakers should systematically assess the binding constraints facing employers when developing sectoral skills policies.

The Sector Jobs Plans and the work of Skills England and the Industrial Strategy Advisory Council provide opportunities to build this evidence base. A common framework for assessing barriers could help identify where employer investment is most constrained, distinguish between different types of market failure, and inform the choice of policy response. An illustrative framework for assessing these barriers is set out in Appendix 1.

The government should continue to build evidence, including through policy experimentation and evaluation. This evidence could then be used to refine or scale successful interventions and inform future policy design, and the process will help motivate future research in this field.

Conclusion



6. Conclusion

Employer investment in training has declined substantially in the UK over the past two decades, despite growing demand for higher-level skills and strong evidence of the economic returns to workforce development. Constraints, such as coordination and information failures, are particularly important for the IS-8 sectors, where demand for skilled workers is likely to increase significantly.

The evidence reviewed in this report suggests that no single policy lever is likely to address these barriers at scale. International experience instead points towards a combination of approaches: stronger coordination between employers and training providers; sector-based programmes that connect training to genuine employment and progression opportunities; and targeted financial support where the barriers to investment are greatest. In England, many of the building blocks already exist for a more holistic approach through Skills England, Sector Jobs Plans, Local Skills Improvement Plans, Skills Bootcamps, the Growth and Skills Levy and the Lifelong Learning Entitlement. The priority should be to strengthen and connect these instruments rather than add further layers to an already complex system.

Clearly, successful international models cannot simply be transplanted into the UK. The most promising approach is to adapt the principles underlying successful models to the specific context, which also varies by sector and place. This includes using Sector Jobs Plans to identify where coordination is most valuable, giving employers a meaningful role in shaping and co-investing in provision, strengthening the intermediary capacity of Skills England, and allowing combined authorities and city regions to test approaches that reflect local labour markets. Financial incentives may have a role, but should be targeted towards firms, sectors or types of training where additional investment is most likely to be generated rather than subsidising training that would have happened anyway.

There are genuine trade-offs to navigate. Greater targeting can reduce deadweight but risks adding administrative complexity to a system where complexity is already a barrier to employer participation. Devolution can improve responsiveness and coordination, but without common national standards and oversight it could result in fragmentation, particularly around accreditation and the portability of qualifications.

Moreover, any new initiatives could potentially add to policy churn and complexity in an area that has seen a lot of reform in recent years. Piloting and experimentation can improve long-term outcomes, helping to build a robust evidence base and hence justification for expanding initiatives seen to be successful, maximising the chances that the benefits of new policy outweigh the costs (both fiscal and administrative). But, this would require some tolerance for risk and longer-term funding commitments.

Finally, given fiscal constraints, any new resources devoted to encouraging employer investment in training must be balanced against funding needs elsewhere in the skills system. There are likely to be complementarities between policies across these areas, meaning that the case for additional investment will be stronger where interventions reinforce rather than substitute for existing provision.

These trade-offs suggest that the objective should not be to maximise employer investment in training in isolation. The aim should be to increase additional investment where it generates the greatest economic and social returns, while minimising the fiscal, administrative and coordination costs of intervention. This points towards a selective

approach in which government uses the structures already being developed to test stronger forms of employer-led coordination, integrate provision across employers and education providers, and build the evidence needed to determine where further investment is most effective. The implementation and continued development of the Industrial Strategy and Sector Jobs Plans provides an opportunity to do this without creating an entirely new architecture for workforce development.

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Appendices

Appendix 1: Barriers to employer investment in training

Economic theory and empirical evidence, as well features of the UK context, suggest that there are a range of barriers to firm-level investment in training. Some of these are economy-wide, others apply more to certain IS sectors or subsectors, or certain types of firm within them (eg smaller firms vs larger firms).

The following provides a summary of some of the key barriers, grouped by category.

Figure 5: Barriers framework



Appendix 2: Glossary

Blended finance: The use of public or philanthropic capital to de-risk or crowd in private investment in a project or programme. In a skills context, this refers to public investment in a training scheme so that employers, providers or investors will co-fund provision they would not finance alone.

Department for Business, Innovation, Science and Trade (DBIST): The department was created in July 2026, under the Burnham government. The Department for Business and Trade was renamed and took on the science and innovation portfolio following the closure of the Department for Science, Innovation and Technology. DBIST leads on the Industrial Strategy and business-facing policy.

Department for Education (DfE): DfE is a ministerial department that is responsible for higher education, and further education, skills, training and careers for those aged 19 years and under.

Department for Work and Pensions (DWP): It is a ministerial department responsible for welfare, pensions and child maintenance policy. In September 2025, the government moved

the skills brief from DfE to DWP – including apprenticeships, adult further education, skills, training and careers and Skills England.

Devolved authorities: Sub-national bodies in England, such as combined and combined county authorities, that hold delegated powers over areas including transport, housing, strategic planning and skills and employment. Formalised as "Strategic Authorities" under the English Devolution and Community Empowerment Act 2026, they are distinct from the devolved national governments of Scotland, Wales and Northern Ireland.

Growth and Skills Levy: This is the UK government's reformed apprenticeship funding scheme, replacing the Apprenticeship Levy from April 2026, designed to support employers in training young people and upskilling staff. It offers greater flexibility by allowing employers to fund short, targeted training courses as well as full apprenticeship standards.

Industrial Strategy: The UK's Modern Industrial Strategy, published in June 2025 under the Starmer government, sets out a ten-year plan to raise investment, productivity and resilience, targeting eight priority sectors known as the IS-8. The Industrial Strategy was developed by the Department of Business and Trade (now known as DBIST) and HM Treasury.

Industrial Strategy Advisory Council (ISAC): This is an independent, non-statutory, expert committee responsible for advising government on the development and delivery of the industrial strategy and monitoring progress on its objectives, including the Sector Plans. It is sponsored by the Department for Business and Trade (now DBIST) and HM Treasury, reporting to the Secretary of State for Business and Trade and the Chancellor of the Exchequer. It is made up of experts from across business, academia, and trade unions and works closely with wider stakeholders to develop a broad evidence base. As part of this, the ISAC published a report on increasing employer investment in skills to boost UK growth in July 2026.

IS-8: The eight priority sectors identified in the UK's Modern Industrial Strategy as having the strongest potential to raise productivity and drive growth, and around which the strategy targets business investment and support. These are: Advanced Manufacturing, Clean Energy Industries, Creative Industries, Defence, Digital and Technology, Financial Services, Life Sciences, and Professional and Business Services.

Labour Market Evidence Group (LMEG): A cross-government partnership providing research and analysis on labour market needs and their interaction with migration, industrial strategy and skills policy. Its members are ISAC, DWP, Skills England, the Migration Advisory Committee and equivalent organisations in the devolved governments. It has no policy-making powers but provides evidence to help the government make decisions.

Lifelong learning: This refers to the continuation of learning and development of skills throughout one's life, including formal adult education. It has been associated with higher life satisfaction and improvements in mental health.

Lifelong learning entitlement (LLE): A single post-18 student finance system for England replacing undergraduate student finance and Advanced Learner Loans at levels 4 to 6. From January 2027, the LLE will provide a tuition fee loan entitlement equivalent to four years of post-18 education, usable up to age 60. It can be used flexibly for full qualifications or for modules of at least 30 credits in areas aligned to priority skills needs and the Industrial Strategy.

Local Skills Improvement Plans (LSIPs): Employer-led plans setting out priority skills needs for a defined area and the changes to post-16 technical provision needed to meet them. Guidelines for the development were first introduced in October 2022 and have since been reformed, including in November 2025. Under the latest guidelines, all areas of England are expected to develop a new three-year Local Skills Improvement Plan (LSIP) covering the period 2026 to 2029. These are led by designated Employer Representative Bodies – typically the regional Chamber of Commerce – with updated guidance giving Strategic Authorities a stronger partnership role where they exist.

Modular training/provision: Training that is structured into smaller, standalone units or modules that can be taken individually, rather than requiring learners to complete a full qualification or programme. Modules can be combined towards a larger qualification or used independently to develop specific skills in response to workforce needs.

Sectoral Intermediary/Intermediary: A sectoral intermediary is an organisation that sits between employers and the training system within a single sector or industry cluster. Rather than any one firm bearing the cost and risk of designing and delivering training alone, the intermediary aggregates employer demand across multiple firms, translates it into a shared curriculum or standard, and coordinates delivery with providers. This addresses the poaching externality that discourages individual firms from investing in transferable skills. As the intermediary organises training at the sectoral level, no single employer bears the full cost of training workers who may move to a competitor. Sectoral intermediaries are central to the US sectoral training evidence discussed in this note.

Sector Job Plans: Plans complementing the 2025 Sector Plans, setting out the workforce and skills challenges facing Industrial Strategy priority sectors and the construction sector. They highlight actions how government, industry and partners will respond, and the actions they will take.

Sector Plans: The Industrial Strategy is supported by individual sector plans for each IS-8 sector. These plans set out the vision till 2035 and lay out the approach the government will adopt when working with the industry.

Skills England: It is an executive agency of the Department for Work and Pensions and leads on the national skills strategy to support growth. It works across the government on skills and undertakes skills assessments and analysis. It participates in the Local Market Evidence Group and working with local and regional partners, including their local skills improvement plans.