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**Skills system needs a stronger sectoral focus and place-based pilots to encourage firms to invest in staff**

Ensuring the workforce has the skills the UK needs for economic growth requires employers to invest in training, but this has been in decline in recent years.

Now a policy report from the LSE's Centre for Economic Performance and Programme on Innovation and Diffusion suggests ways to break this cycle through building on the existing skills landscape to better support employers.

The report *Skills for growth: what the UK can learn from international approaches for incentivising employer-based training* suggests that the organising principle for skills policy should be by sector – focusing on the eight growth-driving sectors set out in the Industrial Strategy, including digital and clean energy.

The report comes as working life in the UK is being transformed by both AI and the green transition.

The report authors point out that while employers play a key role in ensuring workers have the skills the changing economy needs, the proportion of employers investing in training has dropped from 65% in 2011 to 59% in 2024, and where firms are training their staff, the amount spent per employee has also dropped.

They consider barriers that hold skills investment back, and set out lessons for skills policy from countries across the world – looking at different approaches to improving coordination between employers and training providers, running sector-based training programmes and providing financial incentives to firms to invest in training.

"Clearly, successful international models cannot simply be transplanted into the UK," said Professor Anna Valero, co-author and director of CEP's growth programme. "The most promising approach is to learn from the principles underlying successful models and adapt them to specific contexts – building on the existing structures that can be better aligned, and channelling resource and policy effort carefully to where barriers are greatest and strategic needs most pressing."

The nine recommendations to provide skills for growth are:

1. Strengthen cross-government policy coordination.
2. Align Local Skills Improvement Plans (LSIPs) with the Industrial Strategy and local growth plans.
3. Give Skills England greater capacity to convene partners and build evidence.
4. Make sector-based coordination the organising principle for investment
5. Reorient existing instruments rather than creating new ones.
6. Enable places to pilot sector partnerships.
7. Broaden the financing model to connect with the social impact investment agenda
8. Target financial support where the barriers are greatest.

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

Professor Sandra McNally, co-author and director of CEP's education programme, said: "The priority should be to strengthen existing approaches rather than adding further layers to an already complex system. But it is important to be aware of the trade-offs to be made. For example, tax incentives within existing tax systems keep administrative costs low, but 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. We set out examples of how this can be addressed."

Aadya Bahl, policy officer at CEP, said: "An overarching priority for policymakers, researchers and other stakeholders must be to continue building the evidence base on what works. Enabling places to pilot sector partnerships can help test more intensive models of employer coordination, particularly in priority sectors and locations where strong employer and education partnerships already exist."

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**Notes to editors**

- The Centre for Economic Performance (CEP) is an independent research centre based at the London School of Economics and Political Science. Its members are from the LSE and a wide range of universities within the UK and around the world.

- The Centre for Economic Performance is part-funded by the Economic and Social Research Council, part of UK Research and Innovation (UKRI) https://esrc.ukri.org/ https://www.ukri.org/

- The Programme on Innovation and Diffusion (POID) carries out cutting-edge research into how to boost productivity through nurturing innovation – ideas that are new to the world – and how to diffuse these ideas across the economy.

- POID is co-funded by the London School of Economics and Political Science and the Economic and Social Research Council, part of UK Research and Innovation (UKRI) https://esrc.ukri.org/ https://www.ukri.org/

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