WP8 – Funding of Skills – England Case Study

Skills2Capabilities Report

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PREFACE

Who pays for skills, and to what extent, is an important determinant of the volume and quality of provision and potentially its content. Funding of vocational education and training (VET) is likely to reflect the relative value an economy places on this form of education. The wider study, of which this country case study forms a part, is concerned with understanding how countries have funded VET, the rationales which have guided that funding and how these have changed over time.

This report focuses on England, while the broader comparative study, available online, also examines the funding of VET in Norway and Austria.

Skills2Capabilities, a Horizon Europe study, is about understanding how skills systems need to develop if they are to assist people to make labour market transitions – i.e. between jobs, employers or sectors – and thereby reduce the level of skill mismatch which might otherwise arise.

This paper is part of the Skills2Capabilitiy Work Package entitled 'Funding of VET and AL and the Sharing of Costs'

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1. Characteristics of the Skills Funding System

1.1 The Current Funding System

This focus here is funding used to directly support learners acquire vocational qualifications and skills. It is not concerned with the overall funding of the skills system which includes the operational budgets of the Department for Education (DfE) - the ministry responsible for the skills system - and its various agencies. Instead, the intention is to show how public funding has been used to support and influence the skill investments made by individual leaners and employers. As will be revealed, the provision of public funding has been central to government efforts to make the skills system responsive to labour market demand however that might be defined. While the main interest is initial vocational education and training (IVET), because its boundary with continuing VET (CVET) has become increasingly blurred, the distinction between the two proves difficult to maintain in practice.

Eligibility for receipt of public funding is largely determined by age (except for apprenticeship training). All those aged 16-19 years are fully funded by the state for study towards a qualification approved for funding by the DfE. Funding is provided directly to the education and training provider to cover the costs of tuition. For those aged between 19 and 24 years, funding eligibility is more restricted and is usually limited to: first full achievement of a qualification at EQF level; study towards a qualification which provides skills in relatively high demand; and those who are unemployed or whose earnings are below a certain threshold (£25,000 a year). For those aged 24 years and over the expectation is that, except in a few specific instances, funding to cover tuition fees is not available. Table 1 summarises eligibility by age. Mention is made of co-funding. There is implicit recognition that the tuition costs associated with a particular qualification do not necessarily cover the full costs of delivery. There are a range of indirect costs which are met by the state, such as funding to maintain facilities in further education colleges (FECs), which are not included in the price attached to a course, hence the reference to co-funding.

Table 1: Eligibility for tuition costs

	Age	
	19-24	24+
Maths and English up to Level 2	Fully funded	Fully funded
Essential digital skills	Fully funded	Fully funded
First full level 2	Fully funded	Fully funded if unemployed or below earnings threshold
Learning aims under local flexibility offer	Fully funded if unemployed or below earnings threshold	Fully funded if unemployed or below earnings threshold
First full level 3	Fully funded	N/A
Level 3 free courses for jobs (FCFJ) offer	N/A	Fully funded if unemployed or below earnings threshold
English as a second language	Fully funded if unemployed or below earnings threshold	Fully funded if unemployed or below earnings threshold

Source: DfE

Where a learner is not eligible for funding, they can take out a training loan to cover the costs. These are provided through advanced learner loans. The funding is paid directly the education institution. Learners begin paying back the loan when their average salary reaches £27,295 a year at which point they will repay 9 per cent of their annual salary in repayments. The interest on the loan is the retail price index (the inflation rate) plus 3 per cent (at the time of writing this equates to 6.9 per cent a year compared with an interest base rate of 4.5 per cent). Loans are provided through the Student Loans Company (a UK quango) and underwritten by government. Any loan remaining 30 years after the start of the repayment period will be written off.

As noted above, apprenticeships fall outside the funding arrangements just described. The apprenticeship levy is used to fund apprenticeship training. For those employers which are out of scope of the levy, they are required to meet a share of the tuition costs associated with the formal training element, where apprentices are aged 18 years and over at the commencement of their training.

1.2 Development of the Current System

England's demand-led skills system relies upon a funding regime designed to guide would-be learners towards the acquisition of competences which have value in the labour market. Many courses and programmes eligible for public funding within the skills system are ones where employers have a central role in the determination of their content (e.g. T-levels and Apprenticeships). Employer involvement in the design of courses and programmes is to ensure that skills supply meets demand because employers will, it is reasoned, have a focus on ensuring that skills conferred on their trainees provide value to them. In other words, they deliver skills from which they can obtain an economic rent. In return for granting employers more control over the skills system, employers (and learners) are expected to meet a share of training costs. This is because the skills system should be 'fair' whereby beneficiaries of training should pay a share of the overall costs

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(BIS, 2010). The direction of travel, as will be explained below, is that of reducing the costs of the skills budget to the state.

Funding has proved to be a central part of the policy discourse over the past 20 years. It has sought to reconcile a number of factors:

- funding should support training that would not otherwise take place without government support but is considered to have value in the labour market;
- increasing the volume of training and its labour market relevance;
- reducing government expenditure on further education and skills.

Achieving these aims has involved a degree of innovation and experimentation. In the absence of a counterfactual, it is difficult to assess the success of the policy mix. There are certainly parts of the system which are beginning to buckle under the financial pressures with which they are currently faced. In 2022/23, for example, DfE reported that 37 per cent of all further education colleges (FECs) were in operating deficit. It is difficult to avoid the conclusion that many of the problems which funding policy has sought to redress 20 years ago are still evident today (2025), such as the long-tail of low skilled adults which the Leitch Review (2006) sought to address, the comparatively modest levels of participation in intermediate skills development which the establishment of publicly funded apprenticeships was meant to resolve, or Cinderella status vocational education and training.

Policy makers have attempted to create a market-based skills system. Training providers compete with one another to supply the skills employers and learners demand, and qualification awarding bodies compete with one another to develop qualifications which prove attractive to providers and learners (subject to meeting regulatory requirements). This provides an external training market in which learners and employers can select the courses and programmes that best meet their needs (Cedefop, 2018). Funding follows the learner and employer (the demand-side) to ensure that the supply-side (training providers and awarding bodies) is responsive to labour market demand. The role of public funding is to correct for any market failures. In effect, the state only wants to fund training which is otherwise unlikely to take place because of market failures of one kind or another. The principal market failures are information and capital ones. Accordingly, government has invested in information, advice and guidance to assist individuals of all ages and employers identify the skills in which they need to invest. Additionally, training loans have been introduced, underwritten by government, to assist those not eligible to receive public funding participate in upskilling and reskilling. At the same time there have been novel initiatives designed to incentivise individuals and employers to invest in training and surmount barriers posed by a lack of information and capital. These included, amongst other things, Individual Learning Accounts (2000 - 2001) that provided individuals with a training voucher, Train to Gain (2006 - 2010) which provided an assessment of an enterprises training needs and provided access to training to fill any gaps, and the Employer Ownership of Skill Pilots (2012 - 2017) where firms competed for a share of £350m fund to develop initiatives to meet their skill needs. All were withdrawn for one reason or another despite schemes such as the ILAs being considered innovative even if their administration proved to be flawed.

Notwithstanding concerns about effectiveness of schemes, there is a sense of recurrent policy and programme change which, in turn, is likely to accrue substantial transaction costs. This is at odds with the goal of successive governments to reduce expenditure on skills, especially in the wake of the financial crisis. The Comprehensive Spending Review in 2010 sought to reduce the adult skills budget by 25 per cent over the period 2010/11 to 2014/15 (HoC, 2019; BIS, 2010). This was to be achieved by reducing eligibility of fully-funded training to adults those with low levels of skill (EQF level 2 and below for the most part). Funding was also directed towards apprenticeships because employers picked up a large part of the cost of this kind of training. This resulted in fewer people taking classroom-based courses which, in turn, reduced the funding available for training providers dependent upon this type of provision. England abolished many of its sectoral training levies during the 1960s and 1970s. The rationale had always been that levies encouraged training for training's sake rather than delivery anything of value. It was, then, something of a surprise when an apprenticeship levy was announced in 2015 and subsequently introduced in 2017. In part the rationale was that there was under-investment in skills by employers. This was identified in the Banks Review (2010) which addressed low levels of employer investment in skills and training. The levy essentially forced employers to train if they wanted to recoup their levy payment and because they were, in effect, spending their own money, they would be expected to engage in training which conferred value on their businesses. In this way, the levy would contribute to creating a demand-led system. It has done so, but the number of apprentices has fallen. This is returned to below.

With the election of a new government in 2024, the adult education budget, which funds training for those aged over 19 years of age, has been increased by £300 million after years of cuts. A small amount compared to sizeable cuts made over the previous years and the goal of government to further increase upskilling and reskilling volumes. It also announced the introduction of the Lifelong Learning Entitlement (LLE) – which has some commonalities with ILAs – and a paring down of the qualifications eligible for funding at EQF level 3.

2. Changes in Funding

2.1 Funding 16 – 18 Age Group

A range of providers are funded to deliver training to those aged 16-18 years, including: FECs (i.e. vocational schools), sixth-forms, independent learning providers (ILPs), and some higher education institutions (HEIs). Funding is available for both general and vocational studies. Only approved courses / qualifications are eligible for funding.

Institutions are funded by the DfE according to the following formula (see Figure 1).

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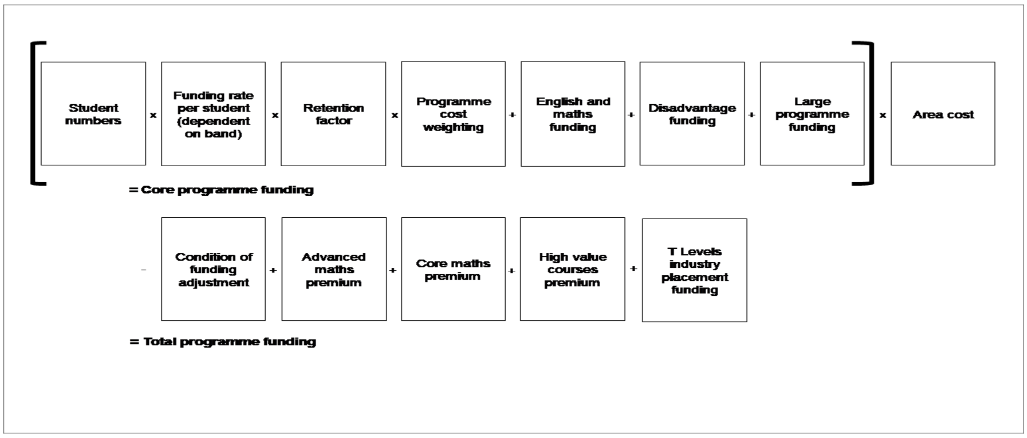
Figure 1: Funding Formula for 16-19 educational institutions



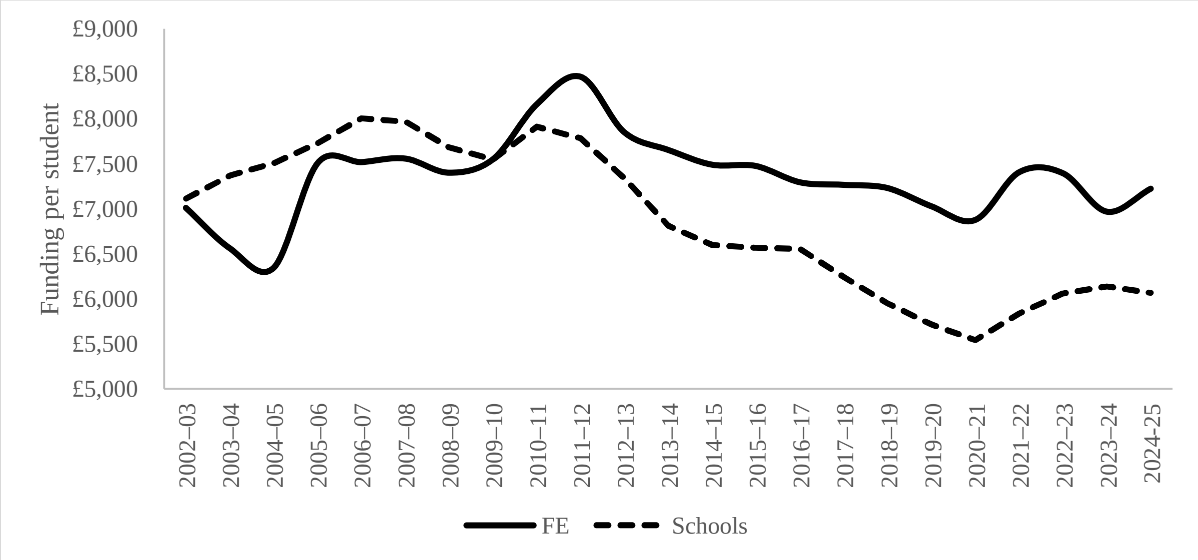
Source: DfE 16-19 funding: How it works

In general, courses are allocated to a funding band which takes into consideration the amount of teaching time and the costs of equipment which can be particularly pertinent to vocational courses. Extra funding is provided to reflect retention rates, the characteritics of students, plus an area cost adjusment which reflects the wage costs of teaching and non-teaching staff. Funding per student aged 16–18 has consistently been higher in further education colleges than in school sixth forms and sixth-form colleges (Drayton, et al., 2025). This is because FEC students are more likely to pursue vocational qualifications and often come from more disadvantaged backgrounds, both of which attract increased funding levels. In the 2024–25 academic year, projected funding per student in FECs is approximately £7,350, compared with £5,900 in secondary school sixth forms, and £5,500 in sixth-form colleges.

There have been substantial cuts to 16-18 education since 2010 (following the financial crisis) (see Figure 2). The real terms reduction in funding between 2013/13 and 2023/24 to schools has been around 16-18 per cent compared with around 8 per cent in FECs (Drayton et al., 2025). FECs have experienced a slightly lower real terms reduction because they have been in receipt of targeted funding initiatives and have experienced a reduction in the number of part-time students.

Post-16 education is subject to the introduction of new types of qualification from time to time. T-levels were introduced in 2020. They are designed to provide a two-year programme at a level equivalent to EQF level 2 which includes both classroom-based education and work placements. T-levels were designed to offer a vocational alternative to A-level qualifications provided in the general stream. T-levels have their own funding bands which range from £11,082 to £15,330 per student (over two years) – depending upon the number of learning hours - and include an allowance for schools and FECs to establish the infrastructure to deliver them. Again, the evidence points to recurrent change imposing costs on the skills system.

Figure 2: Estimated expenditure per student, 2002/4 to 2024/25 (2024/25 prices)



Source: Drayton et al. (2025) Table 4.1, p.56; HM Treasury (2024)

2.2 Post-18 Skills

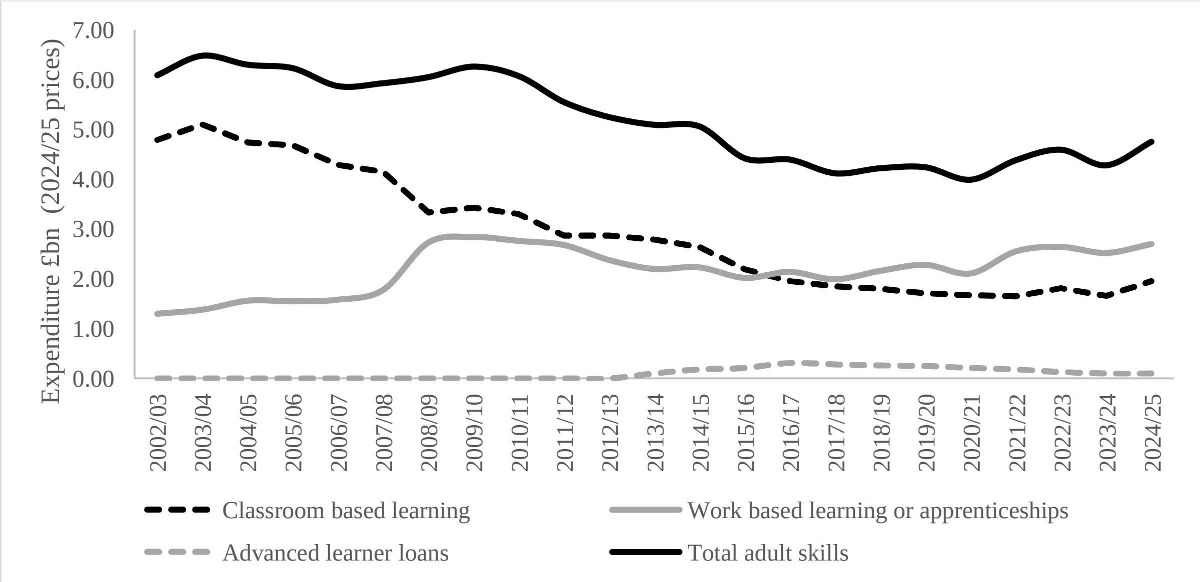
Post-18 vocational skills are principally funded through the Adult Skills Fund (ASF). This was introduced in November 2024 and replaced the Adult Education Budget (AEB). This change was introduced as a result of the government's consultation Skills for jobs: implementing a new further education funding and accountability system (2023). Previously the AEB was funded through the Education and Skills Funding Agency (ESFA) an executive agency of the DfE. The EFSA was abolished in March 2025 with its functions moved into the DfE. The purpose of the ASF is to support adult learners to gain skills which will lead them to meaningful, sustained and relevant employment, or enable them to progress to further learning which will deliver this outcome. Within the ASF there is provision for tailored learning that supports wider outcomes such as to improve health and wellbeing, equip parents/carers to support their child's learning, and develop stronger communities. The ASF also provides funding for skills which are considered important to a particular local area.

In the post-18 system, courses are priced according to a funding formula. This is the price which participants will need to pay to enrol in a course. If they are eligible for public funding this will be paid directly to the training provider by the DfE.

With this latest change in mind, it is sanguine to note the Institute for Fiscal Studies' commentary on adult skills provision. "Few areas of public policy have seen as much change as adult education and skills. Since the early 2000s, a series of major reforms has shaped a post-18 education system that can often be challenging for both individuals and employers to navigate. The pace of change shows no signs of slowing under the new government, with the creation of Skills England, major reforms to the apprenticeship levy, and the introduction of the Lifelong Learning Entitlement (LLE) all on the agenda. Underpinning these policy reforms is a funding environment characterised by substantial real-terms reductions since the early 2000s and significant shifts in the allocation of public funds across different areas of adult education." (Drayton et al., 2025, p.62).

Although funding has been in real terms decline (see Figure 3), the number of learners has, more or less, remained stable. In 2019/20, for instance, 1,042,030 leaners participated in training funded through the Adult Skills Budget and this stood at 1,062,960 in 2023/24. Most training is provided at a level equivalent to or below EQF level 2.

Figure 3: Public spending on adult education and skills (actual and projected for 2024–25)



Source: Drayton et al. (2025) Figure 4.6, p.64

Previously, eligibility for funding to undertake a level 3 qualifictaion was determined in large part by whether a person had previously undertaken a full level 3 qualification. This requirement has been relaxed – from 2020 – so that individuals will be funded to undertake a level 3 qualificaiton, regardless of prior attainment, if it contributes to the development of skills that deliver skills that employers value, improve the learner's job prospects, or leads to a higher wage. The qualifications which meet these requirements have been prescribed by the DfE. These are listed below.

- accounting and finance
- agriculture
- building and construction
- business management
- childcare and early years
- digital
- engineering
- environmental conservation
- health and social care
- horticulture and forestry
- hospitality and catering
- manufacturing technologies
- mathematics and statistics
- medicine and dentistry

- public services
- science
- teaching and lecturing
- transportation operations and maintenance
- warehousing and distribution

The prescription of courses eligible for funding marks a break with the idea of a market-based system set out in the Leitch Review (2006) insofar as it (re)introduces a degree of top down decision making about the courses and qualifications people should be funded to undertake.

2.3 Apprenticeships

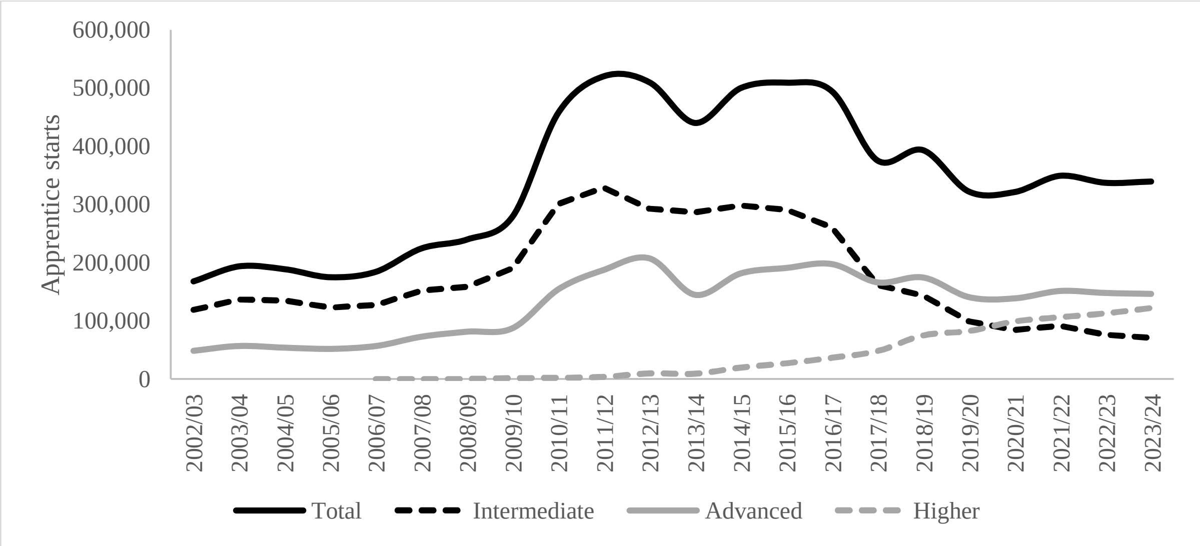
Apprenticeships are funded through the apprenticeship levy. The Apprenticeship Levy is paid at a rate of 0.5 per cent of an employer's annual pay bill above £3 million. The amount raised by the levy provides the overall funding envelope for apprenticeship training including the cost of employers which fall outside the scope of the levy (i.e. small and medium-sized enterprises). DfE reports that around 2 per cent of employers pay the levy. Employers can recoup their levy payment by providing apprenticeships, . Each apprenticeship has a funding band (price) to cover the costs of the formal training required to complete the apprenticeship and pay for the end point assessment.

If employers fall outside the levy's scope, they will be required to pay 5 per cent of the costs of delivering the apprenticeship. Each apprenticeship is allocated to one of 30 funding bands, which range from £1,500 to £27,000. The price or funding band is designed to reflect the duration, teaching time, and capital costs of delivering training. Each funding band sets the maximum amount of digital funds an employer (who pays the levy) can use towards an individual apprenticeship. The funding band also sets the maximum price that government will 'co-invest' towards an individual apprenticeship. Employers who take on apprentices who are aged 16 to 18 years of age do not have to pay training costs. These are all met by government, largely by utilising unrecouped levy payments from larger employers.

In 2023/24, the overall amount of funding raised by the levy was £2.5bn (FE Week, 2025). Of this, 70 per cent was spent on training by levy payers (£1.76bn), and 28 per cent by non-levy payers (£695m). The £2.5bn essentially sets the cap of what government will spend on apprenticeships. In 2023/4, 99 per cent of the apprenticeship budget was spent.

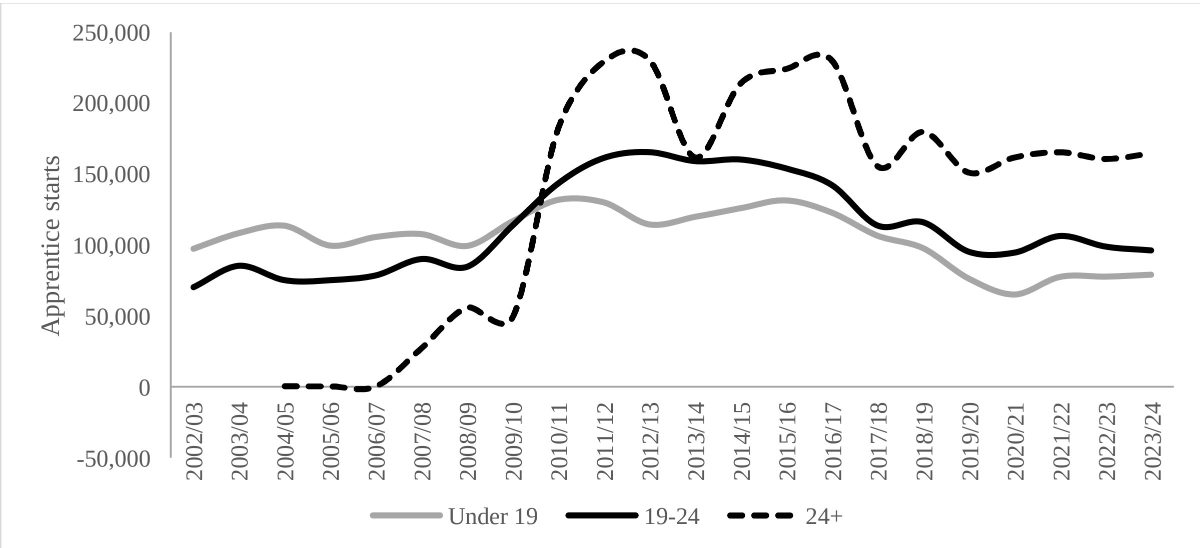
Since the levy was introduced in 2017, along with other changes - such as the requirement that 20 per cent of the apprentice's time is spent in off-the-job training – the number of apprentices has fallen (see Figures and 5).

Figure 4: Apprenticeship starts by level of apprenticeship



Source: DfE

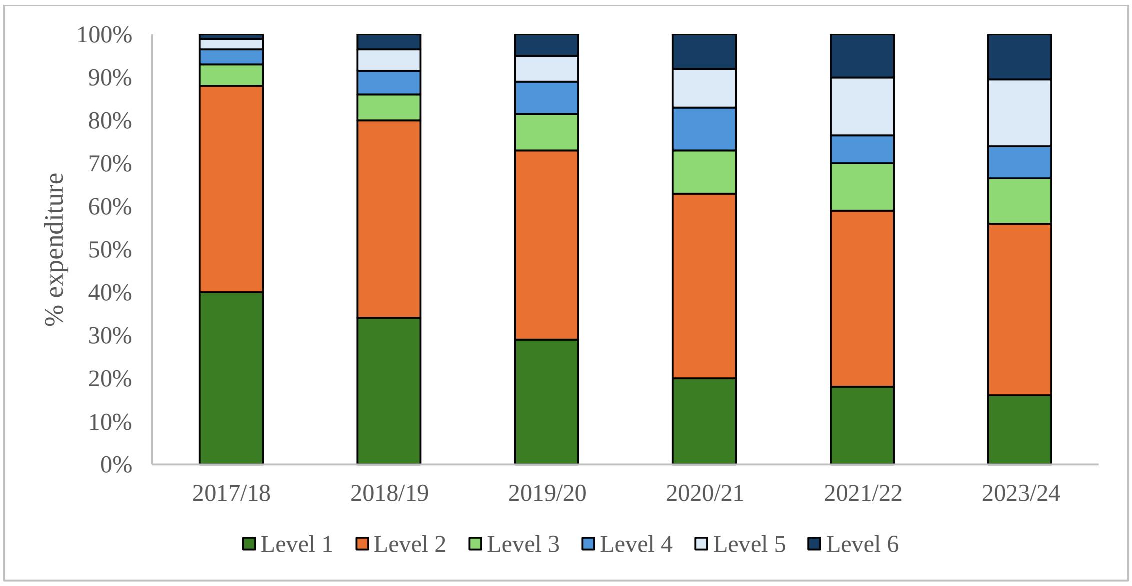
Figure 5: Apprenticeship starts by age



Source: DfE

The evidence points towards apprenticeships, since the levy's introduction, being increasingly oriented towards higher level apprenticeships (i.e. at EQF level 5 and above), often delivered to existing employees of a company. If employers are expected to 'spend their own money' on apprenticeships, then their preferences are for higher level training delivered to the existing workforce. Increasingly, apprenticeship funding is being used to fund higher level apprenticeships (see Figure 6). Because the the element paid for via the levy (and previously paid for by the state) covers around 50 per cent of the overall net costs of training an apprentice, employers want to minimise the risk around their training investment. Accordingly their preference is for the delivery of training which looks a lot like CVET rather than IVET (Gambin and Hogarth, 2020; Dickinson and Hogarth, 2025). And because higher level apprenticeships (i.e. those at EQF level 5 and above) are attached to relatively high funding bands, the available levy budget funds fewer apprentices (see Figure 6).

Figure 6: Share of apprenticeship budget spent on each apprenticeship level



Source: Drayton et al. (2025) Table 4.9, p. 69

3. Employer Investment in Training

The percentage of those in employment in receipt of job related training has remained more or less stable over the past 20 years at around 12 to 15 per cent. Over time the percetnage of employers providing training has fallen from 66 per cent in 2011, to 61 per cent in 2019, to 60 per cent in 2022. Data from the Continuing Vocational Education and Training Survey (CVTS) for the UK – when it was still in the European Union – used to demonstrate that a relatively high percentage of employers in the UK provided training but it was often of relatively short duration.

By looking at employer investments in training over time – assuming that the cost of training says something about its quality and value to businesses – one obtains a unique insight into human captial development (see Table 2). Over time the number of trainees has inceased but the overall amount spent on funding has fallen by £4,467m (by 8 per cent). Training costs per employee have fallen by £1,124 (by 27 per cent). The conclusion is that less funding is being spread across more trainees. Furthermore, often the training provuided by employers is statutory or induction training: half of the 66% of UK employers that reported investments in training offered only induction and health and safety training (CIPD, 2019).

Table 2: Employer Investment in Training in England (2022 prices)

	2011	2013	2015	2017	2019	2022	Change 2011 to 2022
Number of employees (000s)	22,700	22,75	23,480	24,452	25,481	25,649	2,947
Number of trainees (000s)	12,288	14,149	14,708	15,233	15,238	15,429	3,140
Total investment through all training (£m)	£50,316	£46,824	£48,422	£49,379	£44,878	£45,849	-4,467
Total investment through off-the-job training (£m)	£23,809	£23,022	£24,073	£24,418	£22,096	£21,917	-1,892
Total investment through on-the-job training (£m)	£26,507	£23,802	£24,349	£24,961	£22,783	£23,932	-2,575
Investment in training per employee (£)	£2,217	£2,058	£2,062	£2,019	£1,761	£1,788	-429
Investment in training per trainee (£)	£4,095	£3,309	£3,292	£3,242	£2,945	£2,971	-1,124

Source: Employers Skills Surveys 2011, 2015, 2017, 2019, 2022

4. Key Policy Developments

A deep insight into policy development can be obtained from looking at specific developments related to funding (see Table). Policy has sought, at various times, to do three things often simultaneously:

1. encouraging individuals to engage in training through provision of career advice and guidance linked to limited access to funding to acquire skills (e.g. Individual Learning Accounts);
2. address capital market failures which prevent individuals engaging in training (e.g. Training Loans);
3. increase employer investment in skills (e.g. the apprenticeship levy).

Table 3: Key financing initiatives

Programme	Years in Effect	Target	Relationship to Employment
Individual Learning Accounts	2000-2001	Individuals without qualifications; working in SMEs	Not linked to an employer
Training Loans	2012-present *(to be replaced in 2026 by LLE)*	Individuals aged 19 and over	Not linked to an employer
Apprenticeship Levy	2017-present *(due to be replaced by the Apprenticeship and Skills Levy)*	Employers of large firms (+£3million in payroll) to offer apprenticeships up to level 7	Linked to an employer

Source: Authors

4.2 Individual Learning Accounts

The idea of Individual Learning Accounts (ILAs) had been around for a long time before their introduction. In 1994, something similar the scheme eventually introduced was proposed in the Competitiveness - Helping Business to Win [Cm 2563]. Following a period of piloting and consultation, the government was not persuaded that ILAs were a sensible way forward (HoC, 2002). The 1996 Competitiveness - Creating the enterprise centre of Europe [Cm 3300] said:

"Improving individual motivation and participation is at the heart of policy. However, the Government is not convinced that individual learning accounts, linked to employer tax relief or incentives, are likely to broaden participation. In practice, they would be over¬complex and more likely to subsidise existing activity. Progress would be better made through the further promotion and take-up of Career Development Loans and the current tax relief for vocational training."

With the election a new government in 1997, ILAs were introduced in September 2000 following extensive piloting between 1998 and 2000. ILAs were designed to increase participation in learning, remove the financial barrier to participating in training, and make people take more responsibility for their own training. Although ILAs were available to everyone, the main target groups were young people without qualifications in low skilled jobs, workers in small and medium sized enterprises, and those looking to return to work. On policy advice, on 23 November 2001, following allegations that a large number of account numbers had been extracted from the system and offered for sale, government closed the scheme. The DfE estimated that if the scheme had not been closed immediately, the value of fraudulent claims could run into tens of millions.

Initially, ILAs were meant to provide individuals with an account in which they could bank and save money for learning. The idea of an account proved unattractive to would-be participants and financial institutions, so instead a system of subsidies was adopted. Strictly speaking, ILAs in England were a training subsidy rather than a learning savings account. Government wanted the private sector involved in the delivery of ILAs and put out a tender for which they received only one bidder which was subsequently awarded the contract to operate a call centre for enquiries about accounts as well as an administrative centre for registering learners and providers, processing new accounts, maintaining records of learning started and notifying the Department for Education of amounts owing to providers. Training providers were free to market their services to prospective learners.

Three financial incentives were available from September 2000:

- an initial incentive of £150 towards the cost of eligible learning for the first million account users, with a small contribution of at least £25 from the account holder (i.e. the learner);
- a discount of 20 per cent on the cost of a broad range of learning capped at £1009; and
- a discount of 80 per cent on the cost of a limited list of basic IT and mathematics courses limited to a total of £200 discount per account from October 2000.

The government wanted to encourage niche training providers to enter the delivery market who were best placed to attract new, non-traditional learners. By November 2001 there were 8,910 registered providers not all of which were subject to quality assurance. The scheme was far more popular than expected. The Government's commitment to a million account holders undertaking learning over two years was achieved in September 2001, six months early. Two months later, take-up had increased by 50 per cent. Total expenditure (as of June 2002) amounted to £273.4 million compared to a budget of £199 m.

The evaluation undertaken by the National Audit Office (NAO) reported that the ILAs were an innovative policy-making which succeeded in attracting considerable new interest in learning (NAO, 2002). The NAO commented that the scheme had to be withdrawn not because of its innovative nature but because of problems arising from a variety of factors related to its implementation. These were:

1. pressure to implement the scheme quickly and inadequate planning;
2. risks in the design and implementation of the scheme which were not actively managed. The value of individual transactions was low and initially it was considered that the risks of fraud were low;
3. the relationship between the DfE and the organisation managing the ILA was meant to be a partnership but the financial risks remained with the DfE and, in effect, was not a partnership;
4. inadequate monitoring. The DfE should have monitored more closely the information supplied by contractor and the escalating demand for accounts, especially given the innovative nature of the scheme and increasing numbers of complaints.

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The Department took prompt action to close the scheme when it ascertained the scale of potential fraud (around 133 training providers were investigated for fraud).

Aside from the operational problems identified above, the evaluation of ILAs demonstrated that they had positive impacts on participants. An initial evaluation by Owens (2002) demonstrated that:

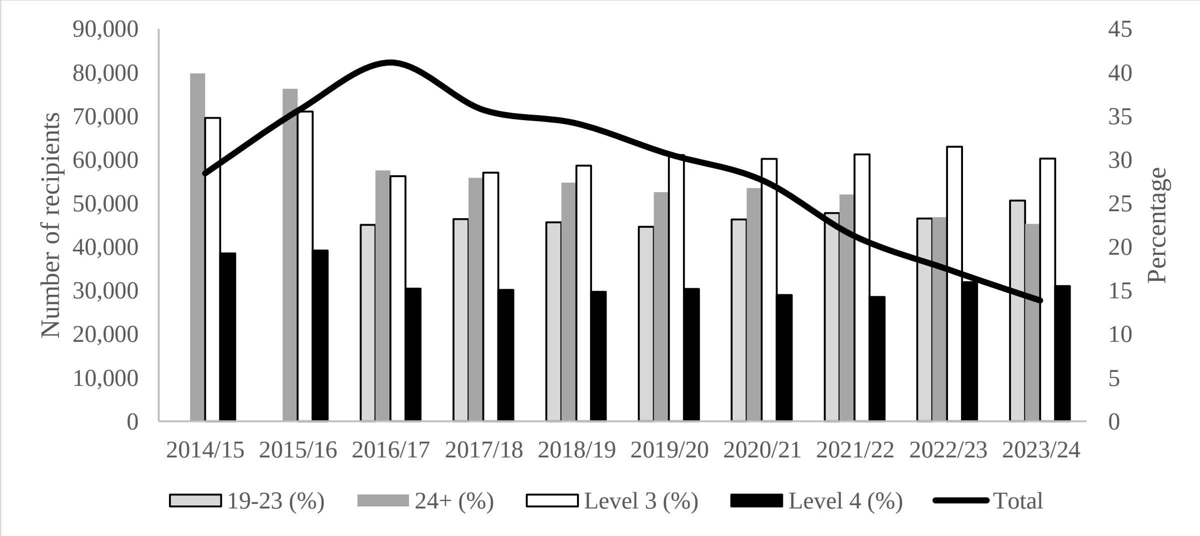
- ILAs attracted a wide range of learners, the majority of whom already possess some form of qualification;
- a higher proportion of women than men have opened and used an ILA;
- the profile for redeemers and non-redeemers is similar, indicating that no one group has experienced particular difficulties in using their Individual Learning Account once opened;
- the majority of those receiving the 80 per cent discount were undertaking an Information & Communication Technology (ICT) course thereby improving IT literacy in the population;
- a significant minority of individuals had contributed below the required amount of £25 towards their course costs;
- the majority of account holders in employment had received no financial contribution from their employer towards their ILA course costs.

As noted above, there are currently plans to re-introduce something which looks similar to an ILA.

4.3. Training Loans

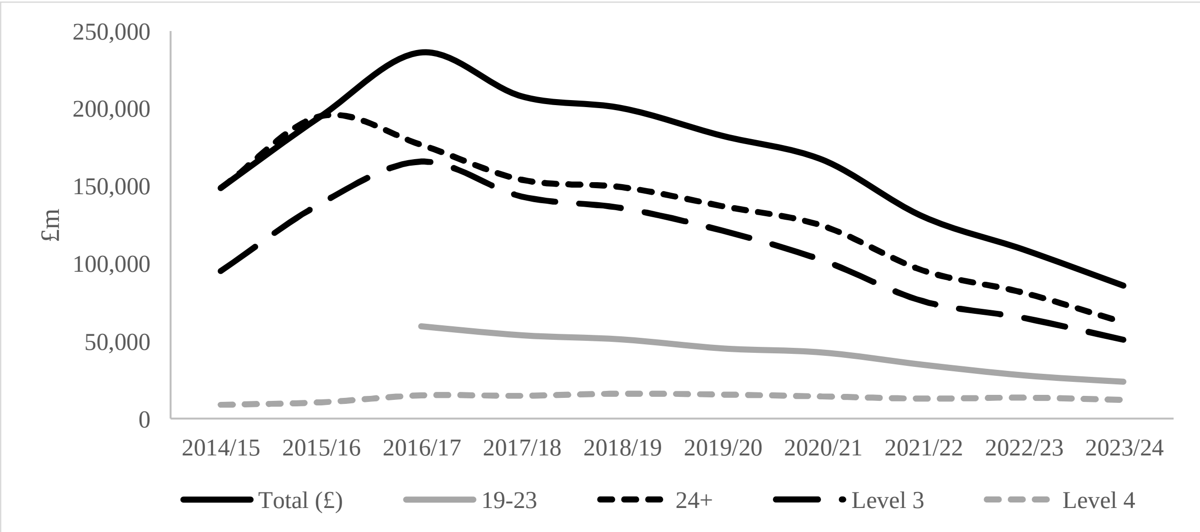
Tuition fees were introduced into higher education in 1998 (with the passing of the Teaching and Higher Education Act). In 2012/13 advanced learner loans were introduced for those aged 24 and over not eligible for government funding. In 2016/17 these were extended to those aged 19-23 years. In many respects, the loans were introduced to reduce government spending on further education and skills (as mandated in successive comprehensive spending reviews). As eligibility criteria for government funding was tightened in the post-2010 period, adults were increasingly required to fund their own training. Figure 7 shows the number of recipients of training loans over time, and Figure 8 shows the amount loaned.

Figure 7: Recipients of advanced training loans



Source: DfE

Figure 8: Amount of training loans (£m)



Source: DfE

Although the value of advanced training loans has fallen over time, as has the number of recipients, loans are at the core of government's latest attempt to stimulate upskilling and reskilling.

For qualifications at EQF level 4+, from 2026, individuals will receive a Lifelong Learning Entitlement (LLE). The DfE says the LLE will: "...will transform the post-18 student finance system to create a single funding system. It will replace: higher education student finance loans; and Advanced Learner Loans" (DfE Lifelong Learning Entitlement, March 2025). The LLE will be used to fund training at EQF levels 4 to 6 and modules of high-value technical courses at levels 4 and 5. In effect, Level 3 courses and below will be fully funded where they are on the list of qualifications considered to be of high value by DfE, or through continued, presumably, through advanced learner loans.

4.4 Apprenticeship Levy

At the end of the 2010s, the Bank Review drew attention to what it described as sub-optimal levels of investment in apprenticeships and the need to leverage more investment from employers (Banks, 2010). This was echoed in policy documents which mentioned that the costs of apprenticeships needed to be shared between their beneficiaries and that employers should meet a certain share of the overall cost of training which had previously been met by government (under the rubric of employer routed funding). If funding could be routed through employers so that they were negotiating the cost of training with providers, and if in addition, they had to bear a certain share of that cost (which amounted to 10 per cent in the end), then they would be incentivised to obtain value for money from providers and ensure that training met their needs. Thereby funding could be used to leverage increased quality of training provision from providers. Before this policy had much chance to gain a footing, it was superseded by the announcement, in 2015, to introduce an Apprenticeship Levy in 2017. This would be levied on employers with a payroll over £3m at a rate of 0.5 per cent. Employers could then reclaim their levy payment to pay for apprenticeship training – that is, that part delivered by training providers and which was previously met in full by the government. Each apprenticeship standard has a cost attached to it which the provider charges the employer for delivering and which is met out of the employer's levy pot. If the employer is not in scope of the levy, then the cost of training is met by the government with the employer expected to pay 10 per cent of the total cost though there seem to be a number of exclusions here.

The announcement of the Levy's introduction might be considered surprising insofar as successive governments had previously regarded training levies as leading to training for which there might not be a demand. In other words, it would reinforce the supply-side approach which the Leitch Review sought to dismantle (Leitch, 2006). On the other hand, given that employers are essentially reclaiming their own money to train and there is sufficient flexibility in the system for apprenticeships to satisfy a wide range of employer requirements with the move from frameworks to standards, there is every reason to believe that employers might well look to reclaim their funding and use it to meet a demand within their businesses. In this way, the Levy would encourage demand-led behaviour. There were some doubts as to whether the Levy could increase the number of apprentices, especially in those apprenticeships which require the employer to make an investment in the future skill need of the workplace because the returns or break-even point arise some years after the completion of the formal training period. For example, the net costs to the employer of training an electrical engineer to level 3 will be around £35,000 (Gambin and Hogarth, 2017). In the past, the training required to complete the apprenticeship would have been met by the state. Now the employer will be pay for the training by reclaiming the £21,000 available for training an electrical fitter to level 3, but will still be faced with the £35,000 cost which accrues from the costs of employing the apprentice over the formal training period. So now the cost to the employer is £51,000. With the introduction of standards it may be that the net costs to the employer will reduce, but the point still stands that the employer will face a significant costs. As such, it is difficult to see how the Levy would increase training volumes especially at higher levels which the Richard Review suggested should be the direction of travel (Gambin and Hogarth, 2020).

In practice, the Levy seems to have dampened the demand for apprenticeships. In 2016/17, before the Levy was introduced, there were 484,000 apprenticeship starts with around 12 per cent of employers reporting at least one apprentice on their books (Shury et al., 2017). Following the introduction of the Apprenticeship Levy in 2017, the number of apprenticeship starts fell to 375,000 (i.e. three quarters of what they were prior to Levy's introduction) with 11 per cent of employers reporting that they had an apprentice (12 per cent before the Levy's introduction, suggesting that the response has largely been that of reducing the number of apprentices taken on by employers but not necessarily reducing the number of employers taking on apprentices. As will be explored in more detail in the next section there appears to have been a shift towards employers investing more in higher level apprenticeships which are more costly – i.e. the amount to be paid to the provider is relatively high compared with apprenticeships at lower levels. For example, a level 6 apprenticeship in Building Services Site Management will cost the employer a maximum of £18,000 compared with a level 2 in bricklaying which will cost a maximum of £9,000. Although there is room for the employer to negotiate a price lower than the maximum available, the evidence seems to suggest that providers charge the maximum allowed which employers are reconciled to paying (IFF, 2020).

The commentary above suggests that the ability of the Levy to increase training volumes will be determined in large measure by the cost-benefit calculations which employers make. Currently the evidence indicates that the overall amount of funding which the government makes available for apprenticeship training is not a constraint. This overall amount is set by the DfE from funds allocated by the Treasury (which collects the Levy payments). This was set in 2015 and was broadly set at the predicted level of Levy receipts. The overall amount of funding raised from the Levy has to pay for:

- the government's contribution to apprenticeships for non-Levy payers; and
- the costs of running the apprenticeship service.

If all Levy-payers were to draw down their allocation there would be insufficient funding (NAO, 2019). DfE initially assumed that around half of all employers would draw down their Levy funding, but in practice it has been much lower than this with the result that there is a substantial surplus available which will expire after two years and enter the Treasury's coffers (Marsh, 2020). Accordingly, the overall amount of funding available would not appear to be a constraint on participation levels. In fact much of the evidence points to the amount of funding available for apprenticeships has increased in real terms over the past ten years or so: from around £1.31 billion in 2009–10 to £1.97 billion in 2019–20 (Britton et al., 2020).

5. Conclusions: Responsiveness of VET Funding

Funding has provided government with the agency to develop a demand-led skills system which confers skills on individuals which have value in the labour market. Funding is, in addition, used to reinforce the operation of an external training market where suppliers compete with one another to deliver the skills for which employers and individuals express a demand. Funding is also used to correct for market failures, especially through the provision of training loans so that access to capital is not a constraint on participation in training. Funding is, in full or in part, available to satisfy whatever demand might exist in the market. Funding, however, tied to the concept of developing a demand-led, market-oriented skills system is not well place to stimulate the demand for skills development. Funding, as a consequence, has been diverted into supporting a range of interventions designed to stimulate the demand for training which have tended to be discarded, sometimes quite quickly, because of problems related to implementation failures, efficiency (value-for-money) considerations, and deadweight. This might simply reflect the difficulty attached to stimulating a demand for skills detached from industrial policies which are likely to be the real source of skills demand. Policy makers today are faced with tackling the same problems as their counterparts 20 years ago using the same range of funding tools and interventions.

There is a tension at the core of the funding system in England. Employment policy is predicated on increasing mobility in the labour market – especially between jobs, between sectors, and between employers. Skills policy is oriented towards increasing participation in upskilling and reskilling but where the state has sought to limit its funding because of the financial necessity to do so (cf. pressures on government borrowing), but also because it does not want to fund training which could be funded by others (employers and individuals) and, at the same time, wants introduce a degree of equity whereby the beneficiaries of training bear some or all of its costs. The central problem is that in a labour market which encourages mobility employers will be unwilling to fund training from which they will not be able to appropriate a return. Even though employers have a degree of monopsony power with respect to the workers / apprentices they train, there are limits to this in practice. This suggests that the costs of training will be increasingly passed onto the individual either through receipt of a lower wage during training or through the employer paying some of the cost of training (hence training loans).

Where employers are left to make the decision about where to fund training the evidence suggests points to them investing in employees where they think the returns are likely to be highest and where they are more likely to appropriate the return – i.e. existing employees being trained to levels equivalent to EQF level 5+. In turn, this necessitates efforts to introduce interventions to upskill and reskill workers whose skills are at level 2 or below. There appears to be a degree of restlessness here. Interventions come and go or are reinvented at some later date, but the essential problem remains the same. That is, inefficient provision of training and skills development below EQF level 5. This is something which the skills funding system has struggled to resolve even if it has been innovative in its attempts to do so. It is notable, however, that state funding for skills is becoming increasingly focused on sectors / occupations which government considers to be important in its industrial strategy.

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