



IVET Funding and Demand Led Skills Supply

Skills2Capabilities – Blog post

December 2025

Terence Hogarth and Emily Erickson (Warwick IER)

All skill systems are demand led insofar as they want to equip individuals with skills which will confer value in the labour market both now and in the future. There are, however, variants. One can make a distinction between market driven and planned systems. Market driven systems place individuals and employers in the role of consumers of a wide variety of courses, qualifications, and training providers / vocational schools. Training providers and qualification awarding bodies secure income by satisfying market demand for their services. In other words, IVET funding follows demand. Except that there tends to be degree of inertia in skills systems simply because there are limits to the speed with which training providers and awarding bodies can flex their offer to meet changing labour market demands.

An alternative model relies more upon planning. The number of courses on offer is relatively constrained and there is much less competition, if any at all, between training providers and qualification awarding bodies. The state, at either national or regional levels, decides upon the programmes it is willing to fund and to what extent (i.e. with reference to the unit cost allocated to a learner on a particular programme). Planning decisions tend to be informed by labour market analysis of, for instance, skill shortages and likely future demands for certain kinds of skill.

Policy makers preferences for market solutions are typically rooted in their relative efficiency to match supply to demand. Public policy tends to be focused on correcting for potential market failures: typically, those of information and capital. In the case of IVET, the availability of capital to access training tends to be sidestepped because the state tends to meet the full cost of training of young people. This places the emphasis on information and the role of careers advice to guide the training investment decisions of individuals. Information is provided about the returns from a given course or programme relative to something else such as the wage and employment returns obtained from studying to a higher attainment level or with a comparable programme at the same level.



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The differences between the two models can be over-stated. In a planned system, the would-be learner still has a degree of choice about which courses to study which needs to be guided by labour market information. Places, however, on a programme may be more limited as a consequence of the planning process. Explicit in a planned approach is the objective of reducing the incidence of over- or under supply of skills. Even with a market driven system choice will be constrained simply because supply is relatively inelastic.

The question arises about whether any of this really matters. In both systems individuals make a choice – constrained by their prior educational attainment – about the preferred course of study in IVET. Whether or not they are accepted on that course will be, in all likelihood, limited by the availability of places at a nearby vocational school which, in turn, will be determined by the overall funding envelope for IVET training. There are, however, some caveats.

The rhetoric surround markets is all about competition and efficiency. Course curricula and course provision need to be responsive to changes in labour market demand. Qualification awarding bodies and vocational schools are engaged in a near constant process of change. Efficiency means attention is focused on the content of training programmes and the requirement to pare away all that is considered unnecessary to gain occupational competence. Admittedly there is an element of this in planned system but arguably not to the same extent.

A by-product of the drive to efficiency is a relatively high degree of experimentation and innovation. New programmes, new qualifications, and new types of vocational schools, all designed with the needs of employers in mind, are all features of market based system. One might speculate that market based approaches trade stability for efficiency. All of the above have implications for both the choices made by would-be IVET learners and the attractiveness of VET vis-à-vis general education.



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The differences between market based and planned system is somewhat exaggerated in the presentation of the reified types presented here. Nevertheless, it highlights the relative merits of each kind of system and central role played by funding. In a market based system funding has much more uncertainty attached to it, certainly for vocational schools dependent upon it for their income. Whether that uncertainty means the system is constantly striving to meet demand (however that might be defined) such that IVET is responsive to changing patterns of demand, or generates additional costs from the continuous management of change – and thereby diverts funding away from learning – remains moot.



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Read the full working paper on Skill Formation Systems: www.Skills2Capabilities.eu

This Blog is part of the Skills2Capabilitiy Work Package 8 entitled 'Funding of VET and AL and the Sharing of Costs.' For more information please visit skills2capabilities.eu

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