



Skills Funding - Evidence from England

Skills2Capabilities – Blog post

December 2025

Terence Hogarth and Emily Erickson (Warwick IER)

England provides an example of a demand-led skills system where public funding follows the demand for skills as signalled by employers and/or would be learners. It is a system which has been subject to substantial, recurrent change as policy makers have sought to establish a system that provides value for money but also relatively high levels of participation in skills development. This has led to the introduction of various innovations, which need to be acknowledged, but also a system which is subject to constant change.

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. The direction of travel has been that of reducing the share of cost met by the state.



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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, Department for Education (DfE) – the ministry responsible for part of the VET system - 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). These include the long-tail of low skilled adults, the comparatively modest levels of participation in intermediate skills development which the establishment of publicly funded apprenticeships was meant to resolve, and 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. 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.



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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.

Over the past 20 years there has been a policy pre-occupation with reducing the costs associated with VET, especially that delivered to adults. 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. This was to be achieved by reducing eligibility of fully-funded training to adults with low levels of skill (EQF level 2 and below for the most part).

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. The levy essentially pushed employers to train if they wanted to recoup their levy payment – by providing apprenticeships, a company could recoup its levy contribution against the costs charged by the vocational school for training required by an apprenticeship.



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Because they were, in effect, spending their own money, employers would be expected to engage in training which conferred value on their businesses. It has done so, but the number of apprentices has fallen, in part because employers choose to invest in relatively high cost apprenticeships – i.e. ones where the costs of training delivered by vocational schools is relatively high such as those at EQF level 5 + - which means that their levy pot supports fewer apprentices.

Recent reforms have seen some rowing back from this position with more emphasis placed on funding young apprentices working towards apprenticeships at lower levels, and more emphasis on directing funding towards sectors where there are skills shortages and / or substantial growth opportunities.

FOR FURTHER INFORMATION SEE:

https://skills2capabilities.eu/files/results/papers/09_wp8_england_case_study_on_template_for_website_v1final.pdf



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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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