

Learning at work

Employer investment in skills

Naomi Clayton and Stephen Evans

July 2021

Supported by



PART OF **nocn** GROUP

Learning and Work Institute

Patron: HRH The Princess Royal | Chief Executive: Stephen Evans
A company limited by guarantee, registered in England and Wales
Registration No. 2603322 Registered Charity No. 1002775
Registered office: 4th Floor Arnhem House, 31 Waterloo Way, Leicester LE1 6LP

INVESTORS IN PEOPLE[®]
We invest in people Silver



About Learning and Work Institute

Learning and Work Institute is an independent policy, research and development organisation dedicated to lifelong learning, full employment and inclusion.

We research what works, develop new ways of thinking and implement new approaches. Working with partners, we transform people's experiences of learning and employment. What we do benefits individuals, families, communities and the wider economy.

Stay informed. Be involved. Keep engaged. Sign up to become a Learning and Work Institute supporter: learningandwork.org.uk/supporters

About NOCN

NOCN Group is an educational charity whose core aims are to help learners reach their potential and organisations thrive. Its heritage, rooted in upskilling workers for redeployment in industrial Britain, informs its social mobility agenda, and its charitable status drives its purpose and activity. The group includes business units specialising in regulated UK and international qualifications, End Point Assessment, Access to Higher Education, assured short courses, SMART job cards, assessment services, consultancy, and research.

Published by National Learning and Work Institute

4th Floor Arnhem House, 31 Waterloo Way, Leicester LE1 6LP

Company registration no. 2603322 | Charity registration no. 1002775

www.learningandwork.org.uk

@LearnWorkUK

@LearnWorkCymru (Wales)

All rights reserved. No reproduction, copy or transmission of this publication may be made without the written permission of the publishers, save in accordance with the provisions of the Copyright, Designs and Patents Act 1988, or under the terms of any licence permitting limited copying issued by the Copyright Licensing Agency.

Contents

Executive summary	4
1 Introduction	6
2 Broad trends in employer investment	7
3 Which firms invest and what do they invest in?	11
5 How has the pandemic affected investment in training?	20
6 Government support for employer skills	27
7 Conclusion	33
Annex A. The value of tax relief on training	34

DRAFT

Executive summary

Employers are major investors in learning and skills – investment that will be crucial for economic recovery and future prosperity. This report identifies falling employer investment in skills, stark inequalities with some groups and sectors missing out, and government policy that now too often follows or reinforces these inequalities rather than tackling them.

Key findings

Employer investment in skills was declining prior to the pandemic and wider trends raise questions over the quality and impact of some training.

Employers invested £42 billion (including the wage costs of those on training) in skills in 2019 and 61% of employers provided training, a higher proportion than in many European countries. However, this proportion and total investment in skills has been falling after a decade of low growth following the financial crisis and recent economic uncertainty.

In addition, employer investment is relatively thinly spread, with the cost per employee (£1,530) half the EU average and the number of days spent training lower at its lowest since 2011. More than 1 in 10 employers providing training only provided basic induction or health and safety training, and fewer than 20% of all employers provide management training. This raises concerns about the quality and impact of employer training.

There would be another 20 million training days (on top of the 99 million delivered in practice) if training had stayed at 2011 levels, and an extra £6.5 billion invested each year if investment per employee rose to the EU average.

Access to training is highly unequal – between and within businesses – with low paid, low qualified workers less likely to have opportunities to develop their skills.

Smaller businesses and employers in lower wage, lower productivity sectors (including retail and hospitality) are less likely to provide training and investment in training has fallen most in these sectors. By contrast, higher value, more knowledge intensive sectors have increased investment in training.

While a relatively high proportion of adults in the UK participated in job-related training compared to the EU average, low paid and low qualified workers are less likely to access training, reinforcing disadvantage in the labour market and limiting opportunities to progress. There has also been a decline in participation in training over the last decade with the sharpest declines among young people.

An extra 1.2 million people would receive training each year if people with low qualifications were as likely to participate in training as those qualified to degree-level.

Employer investment in training fell sharply during the pandemic – with low wage workers and young people likely to be particularly affected.

Employer investment in training has fallen more sharply during the pandemic than in the financial crisis. Based on surveys of firms' plans, it is more likely to have fallen relative to the US and EU countries. Reflecting the impacts of government restrictions, consumer services firms (including travel and hospitality) were twice as likely to report a decline in training expenditure than other service firms.

Young people – who have borne the brunt of the employment crisis – have also seen large falls in training during the pandemic, particularly those working in the private sector. The fall in apprenticeship starts is also likely to disproportionately impact young people from disadvantaged backgrounds who are more likely to take part in apprenticeships at lower levels. Participation in training also fell further among skilled trades workers and plant and process operatives.

Government investment at times passively follows or even reinforces inequalities in training rather than redressing them.

Government involvement in employer skills amounts to up to £6.8 billion per year through three main channels. The first is funding **training provision**, including the £1.5 billion per year adult education budget (at least some of which is work-related), focused largely on lower levels of learning but cut 40% since 2010 and the new National Skills Fund, worth £3 billion over five years and so far focused more on learning at level 3.

The second is setting the framework and rules for the £2.7 billion **apprenticeship** and levy system, the importance of which has increased since 2010, particularly since the introduction of the levy system. These reforms have led to a fall in the number of apprenticeships, as well as a skewing of opportunities away from young people and lower levels of learning.

The final component of Government support is **tax relief** on the costs of training for companies and self-employed people. This report includes new calculations that Corporation Tax relief has a value of up to £1.3 billion per year, compared to total receipts of around £60 billion, and tax relief for the self-employed has an annual value of around £600 million. These reliefs passively follow employer investment decisions, meaning the majority is for training for those with higher qualifications. The Corporation Tax relief, by definition, only applies where firms are making a profit and so does not support investment in skills as a recovery or growth strategy for other firms.

Overall, this means that Government policy is too often passively following or even reinforcing inequalities in employer training rather than tackling them. There are incentives for employers to invest in skills, but increasingly skewed toward more highly skilled, highly paid workers. This limits opportunity for individuals and means policy is not actively promoting skills development in sectors and for people who might benefit significantly.

In short, policy isn't working as well as it should. Our next report will analyse the policy options for changing this.

1 Introduction

Employer investment in skills will play a crucial role in ‘building back better’ in the recovery from the pandemic.

The UK entered the deepest recession in history in 2020, following a decade of sluggish growth. Coronavirus restrictions led to a sharp rise in unemployment, vacancies plummeted, and millions were furloughed. The pandemic has also accelerated technological change, with increased digitalisation and firms discovering new ways to harness emerging technologies, increasing demand for new skills.

Job-related training will be crucial in responding to these changes, as well as an important contributor to innovation, productivity and wage growth. It also offers pathways for people to upskill and for wage progression. As our previous research has shown, training significantly increases the chances of escaping low pay.¹

Employers play a vital role in job-related training and development.² Ultimately, the main reason employers invest in skills is to meet business need and deliver their business strategies. But the UK has long suffered from low and unequal employer investment in skills, and declining investment prior to the pandemic was identified as one of the likely contributors to the ‘productivity puzzle’. Low productivity and low skills are interlinked.

The Government’s response has centred on the introduction of the Apprenticeship Levy in 2017, ringfencing 0.5% of employers’ payroll above an annualised £3 million for investment in apprenticeships. Unspent levy funds expire after two years. This came alongside the introduction of rules that an apprenticeship must last at least a year with 20% of contracted hours spent on off-the-job training, and increasing flexibilities over time for employers to transfer a proportion of their levy funds to other employers. New apprenticeship standards were also developed, intended to be more rigorous and driven by employer needs than the previous content of apprenticeships. As part of the pandemic response, further cash incentives have been introduced for employers to take on new apprentices. The Government also announced ‘Help to Grow’ in the 2021 Budget, offering 130,000 small and medium-sized enterprises (SMEs) ‘MBA-style’ management training.

This report provides an audit of employer investment in skills over time. It explores how training varies by type of employer, categories of employee, and type of training.

¹ Learning and Work (2020) Learning Ladders: The role of adult training in supporting progression from low pay.

² Gloster, R. et al (2016) Mapping investment in adult skills: Which individuals, in what learning and with what returns? BIS Research Paper found that 82% of total spend of training was funded by employers, although this includes labour costs (or wages) and so is not directly comparable to other sources of funding.

2 Broad trends in employer investment

Key findings

Employer investment in skills was declining prior to the pandemic, coinciding with lower economic growth and business investment following the financial crisis and the 2016 EU referendum. Although a relatively high proportion of UK employers provide training compared to other countries, wider trends raise questions over the quality and impact of training. Employers that do not offer training often say they do not see the need to do so and more than one third say they do not provide broader development opportunities either.

Before the pandemic, there was a decline in the proportion of employers investing in training and a fall in investment in training per employee.

The proportion of employers in the UK (excluding Scotland³) who had funded or arranged any training over previous 12 months fell to 61% in 2019 from 66% in 2017 (Figure 1). This is the lowest proportion since 2013.

Employers invested around £42bn in training in 2019, slightly less in real terms than in 2017.⁴ This includes £20.7bn in the wages of those being trained – 49% of the total spend. Total expenditure equates to an average spend of £2,540 per trainee and £1,530 per employee – falls of 1% and 5% decreases respectively compared to 2017, and the lowest since 2011. Within this, the direct costs of off-the-job training were £6.5 billion.⁵

The number of training days per trainee (and per employee) – considered a good indicator of training's contribution to skill formation⁶ - has also fallen to the lowest level since 2011 (Figure 2). Employers provided 99 million training days in 2019, 20 million fewer than if training days per employee had stayed at 2011 levels.⁷

It is likely that weak economic growth since the financial crisis and economic uncertainty following the EU referendum had impacts on employer investment in skills. Research by the Centre for Economic Performance (CEP) found that firms were 9% more likely to reduce training expenditure in period following the referendum.⁸ There is also causal evidence that training (and wages) fell in sectors where import prices rose by more due to the fall in the value of Sterling following the referendum.⁹

³ Employers in Scotland were not included in the 2019 ESS survey. A separate Scottish Employer Skills Survey was conducted in 2020.

⁴ Employer Skills Survey, Department for Education, 2019.

⁵ Excluding trainee wage costs and the wage costs of those providing training. The main costs were fees to external providers (£3.6 billion) and on and off-site training centres (£2.6 billion).

⁶ Green, F. (2015) The Declining Volume of Workers' Training in Britain, LLAKES

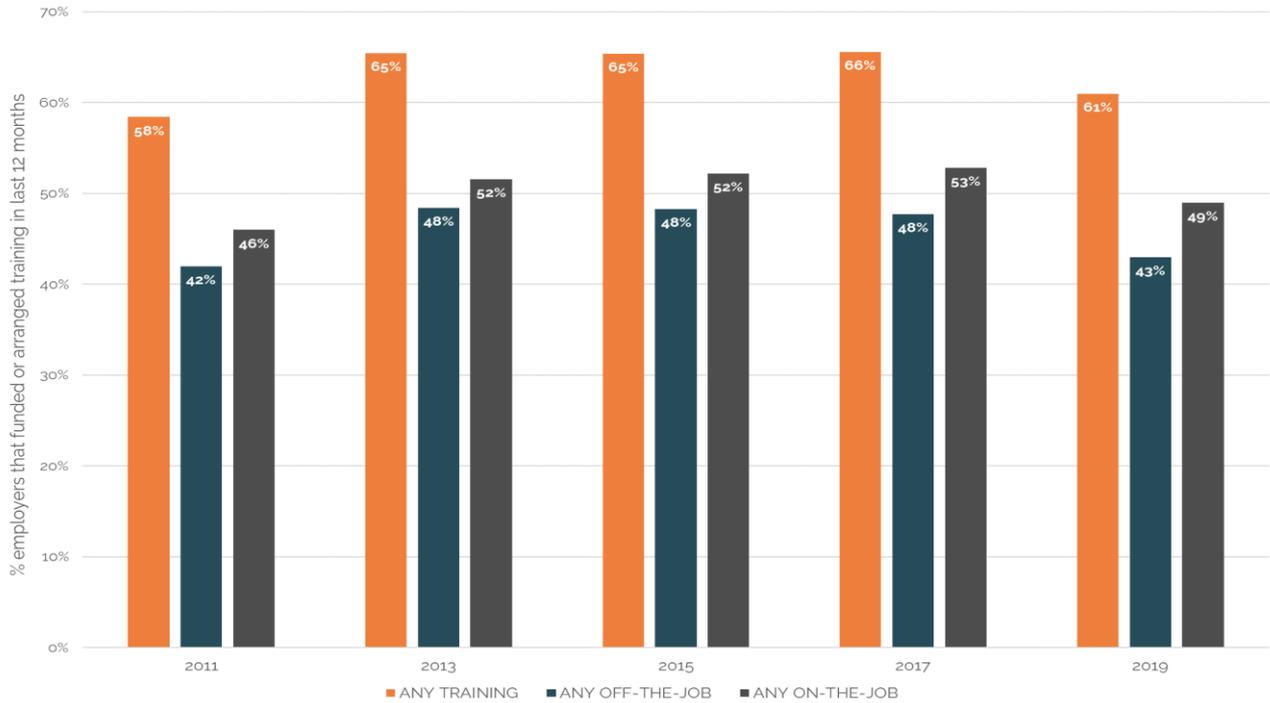
⁷ Training days per employee fell by 0.7 compared to 2011 and there were 28.1 million employees in 2019.

⁸ De Lyon, J. and Dhingra, S. (2020) Firm investments in skills and capital in the UK services sector, OECD

⁹ Costa, R. et al (2019) Trade and worker deskilling: Evidence from the Brexit vote, Centre for Economic Performance, LSE

Figure 1: The proportion of employers providing training fell in 2019

% of employers that funded or arranged training in last 12 months (UK excluding Scotland)

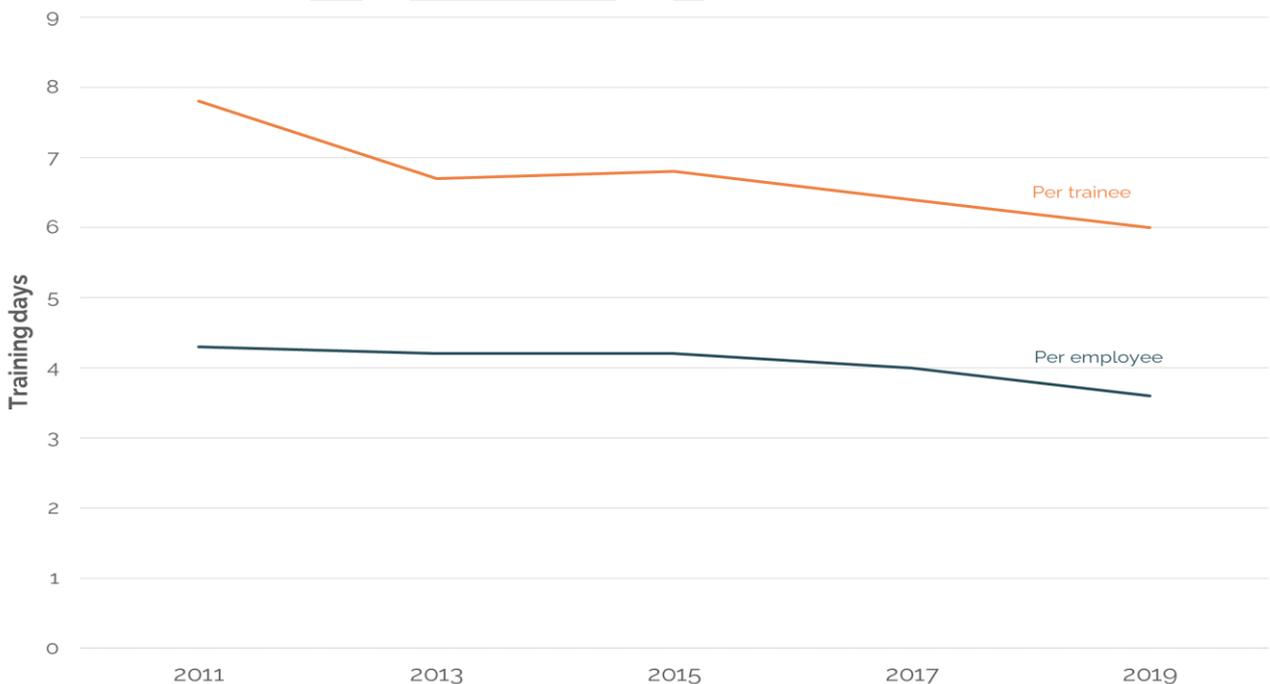


Source: Employer Skills Survey, 2019

Previous surveys (i.e. ESS 2007 and 2009), while not necessarily comparable, suggest that the proportion of employers providing training in 2011 was lower than in previous years, likely due to the financial crisis.

Figure 2: Training days per trainee has fallen to the lowest level since 2011

Training days per employee and trainee, 2011-2019 (UK excluding Scotland)



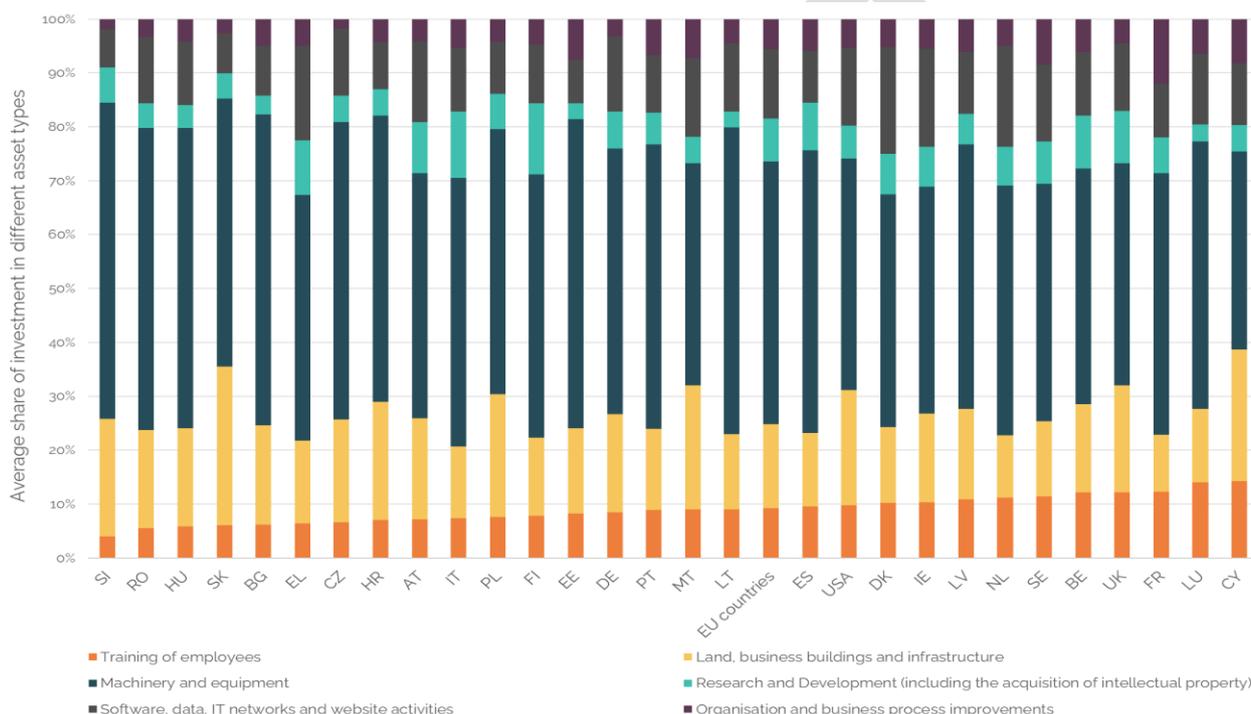
Source: Employer Skills Survey, 2019

A relatively high proportion of UK employers provide training by international standards, although wider trends raise questions over its quality and impact.

The Continuing Vocational Training Survey (CVTS) suggests 86% UK businesses provided training in 2015 compared to the EU average of 71%.¹⁰ Employee training accounts for 12% of business investment in the UK compared to an EU average of 9% and 10% in the US (Figure 3), although overall business investment is lower in the UK.

Figure 3: Training accounts for a relatively high proportion of business investment in the UK compared to the EU and US

Average share of investment in different asset types (UK)



Source: EIBIS, 2020

However, UK employers invested half as much per employee in 2015 (the latest comparable data) and a lower share of UK trainees strongly agree their training helped improve the way they work (the UK ranks 27th out of 35 countries).¹¹ This suggests that, while more UK employers offer training, this training tends to be shorter, cheaper and less likely to be rated as work-enhancing by employees. Employers would invest an extra £6.5 billion if they spent the same per trainee as the EU average.

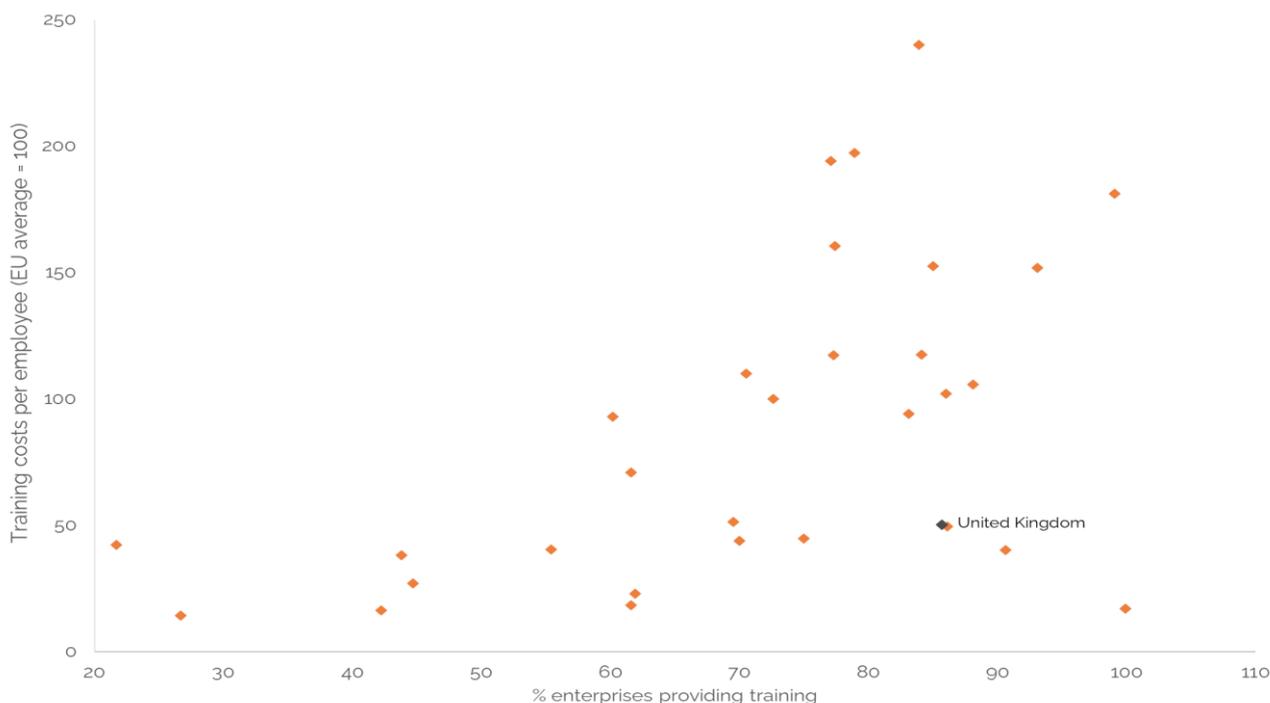
¹⁰ Source: Eurostat, 2021. Figures from the CVST are not comparable with the ESS. The sample size is smaller and is restricted to enterprises where there are at least 10 employees. Reported training incidence is likely to be higher than ESS as a result. For further discussion see

<https://www.unionlearn.org.uk/sites/default/files/publication/Training%20trends%20in%20Britain.pdf>

¹¹ Li, J. et al (2020) Trends in job-related training and policies for building future skills into the recovery, Centre for Vocational Education Research, LSE

Figure 4: A relatively high proportion of UK employers provide training but training costs per employee are half the EU average

Enterprises providing training (%) and training costs per employee (EU average=100), UK



Source: CVTS, Eurostat, 2015

The fall in expenditure per trainee and training days raise the risk that the quality of job-related training in the UK may be declining. Researchers at the Centre for Vocational Education Research (CVER) at LSE also raise concerns about the quality of training, finding general declines in the duration of training even after controlling for worker characteristics, an increase in training at employer’s premises and rise in online learning.¹²

Nearly three quarters of employers who do not provide training believe there is no need for it. For those that do, capacity and funding are the most cited barriers to providing more training.

The most cited reason, particularly for small employers, for not providing training (cited by 70% of employers who do not provide training) is that there is no need to train employees. Other less common reasons include lack of relevant training, it not being a company priority and having no money available for training (around 5-6%).

The most cited barriers to not providing *more* training were not being able to spare staff time and lack of funds (one in two employers providing training). One in seven employers said they found it hard to find time to organise training. Education employers were far more likely to cite lack of funds as an issue.

¹² Li, J. et al (2020) Trends in job-related training and policies for building future skills into the recovery, Centre for Vocational Education Research, LSE

3 Which firms invest and what do they invest in?

Key findings

Smaller businesses and those in lower wage, lower productivity sectors are less likely to provide training and have reduced levels of investment to a greater extent. By contrast, higher value, more knowledge intensive sectors have increased investment in training. The focus of employer training raises further questions over impact and gaps in provision. More than 1 in 10 employers providing training only provided basic induction or health and safety training, and fewer than 20% of all employers provide management training.

Trends by business size

Smaller businesses are less likely to provide training and their investment has fallen the most.

Fewer than one half of micro businesses (2 to 4 employees) provide training compared to 95% of employers with more than 100 employees (Table 1). But they do spend more per trainee and employee than larger employers when they do train. Micro businesses spend 3.5 times more per trainee, and almost twice as much per employee, compared to large employers (100+ employees). Average training days per trainee are also higher in small businesses. In part this may reflect the economies of scale that larger employers are able to achieve as well as their often greater HR capacity.¹³

The proportion of employees receiving training also varies by business size. Among employers providing training, 60% received training in the 12 months to 2019, down slightly from 62% in 2017. The biggest falls were in smaller (2-4 employees) and larger (100-25) firms, though large firms remain far more likely to train: nearly 7 in 10 staff in large companies (250+ employees) receive training, compared to fewer than 4 in 10 in micro companies (2 to 4 employees).

Levels of investment in training fell further among smaller employers between 2017 and 2019. Investment by micro businesses fell by nearly 12% and by 6% among small (5 to 24 employees) and medium (25 to 49 employees) businesses. Meanwhile, levels of investment increased by 14% among larger medium sized employers (50 to 99 employees) and by nearly 9% among large employers (100+ employees). Patterns of spend per trainee and employee followed broadly similar trends.

¹³ Social Mobility Commission (2019) The adult skills gap: is falling investment in UK adults stalling social mobility?

Table 1: Larger employers are more likely to train staff

Headline training statistics by employer size (UK excluding Scotland)

	% employers providing training	Total training expenditure (£bn)	Expenditure per trainee (£k)	Expenditure per employee (£k)	Average training days per trainee
2 to 4	46%	5.2	5.5	2	8.8
5 to 24	75%	12.5	3.6	1.9	6.8
25 to 49	91%	6	2.9	1.8	6.6
50 to 99	94%	5.7	2.5	1.7	6.1
100+	95%	12.6	1.6	1.1	5

Source: Employer Skills Survey, 2019

Trends by sector**Higher value, more knowledge intensive sectors have increased investment in training, while investment among lower wage sectors has fallen.**

The business services sector accounts for 27% of employer investment (Figure 5) and business services employers spend most per employee, and, except for the construction sector, most per trainee.¹⁴ Investment by sector increased by 21% between 2017 and 2019. Spend per trainee is also higher than average in information and communications, and investment by the sector increased by 14% between 2017 and 2019.

By contrast, wholesale and retail employees spend the least per trainee and employee, and total investment in training from employers in the sector fell by 25% between 2017 and 2019. Employers in hospitality and transport also spend the least per trainee within the private sector, and investment fell by 10% between 2017 and 2019 in the former.

Public service employers are the most likely to provide training. Nine out of ten employers in public services (education, health and public administration) provided training in 2019. Public services spend the least per trainee, reflecting the economies of scale these large employers can achieve but more per employee, reflecting higher proportions of staff receiving training. Employers in public services spend the most on fees to external providers. The proportion of staff receiving training was highest in public services and lowest in manufacturing.

¹⁴ These patterns remain similar when the wages of trainees are excluded i.e. higher levels of investment by business service firms do not appear to be driven by higher than average wages.

Figure 5: Business services accounts for more than one quarter of employer investment in training

Total training expenditure (£bn) by sector, 2019 (UK excluding Scotland)



Source: Employer Skills Survey, 2019

Types of training

More than 1 in 10 employers providing training only provided basic induction or health and safety training, and less than 20% of all employers provide management training.

Job specific training is the most common form of training provided by employers. The next most common are health and safety training, and basic induction training. Around one third of employers providing training (31%) said at least half of all their training was a basic induction or health and safety training, and 12% of training employers *only* provided basic induction or health and safety training. The proportion of employers only providing health and safety training is highest in hospitality (19%) and construction (16%).

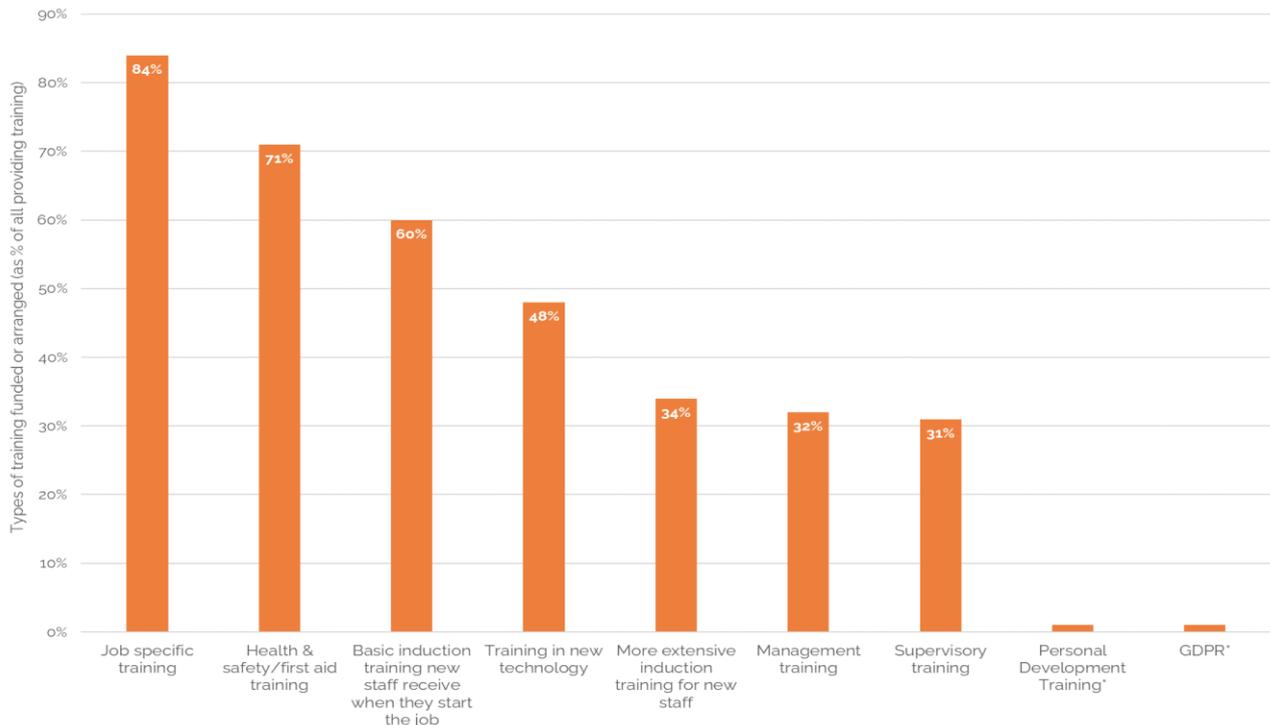
Less than one third of employers providing training – and less than 20% of all employers – provide management or supervisory training. Management practices are a key determinant of business performance and productivity – and on average UK firms are worse managed than firms in the US and Germany.¹⁵ Improving management skills is widely viewed as a policy priority.¹⁶

¹⁵ UK Growth: A New Chapter, 2017, Centre for Economic Performance, LSE

¹⁶ Bloom, N. et al, Management practices across firms and countries (NBER Working Paper 17850)

Figure 6: The majority of employers investing in training provide job-specific training

Types of training funded or arranged for employees (as a % of all employers providing training) (UK excluding Scotland)



Source: Employer Skills Survey, 2019

The overall picture is of employer investment concentrated in higher productivity sectors and of a relatively high proportion of training being basic induction or health and safety training (essentially, of course, but meaning a range of other potentially productivity-enhancing training is not taking place). Spending is both concentrated (outside low productivity sectors where it could potentially have a significant impact) and spread thin with relatively low training durations and a focus on health and safety and induction.

4 Who receives training?

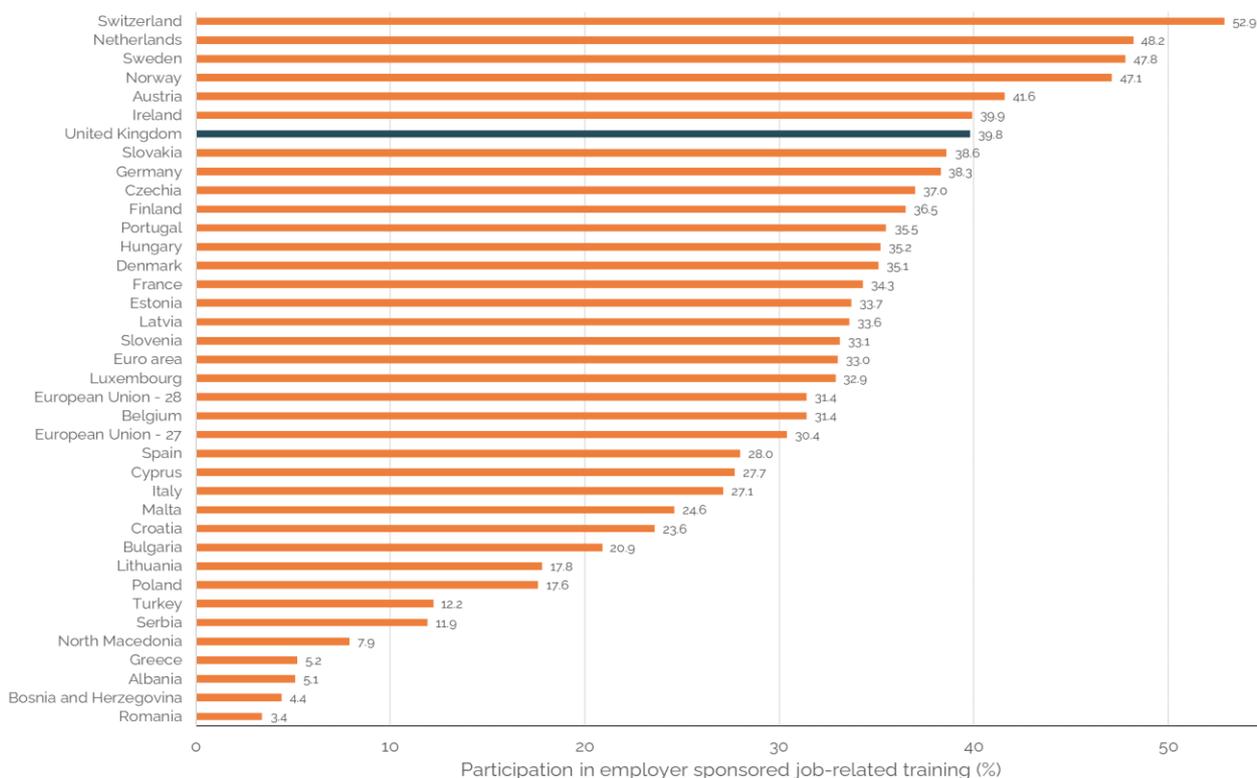
Key findings

A relatively high proportion of adults in the UK participated in job-related training compared to the EU average but this has been falling over the last decade. Access to training is highly uneven, with low paid and low qualified workers less likely to access training, reinforcing inequality in the labour market, and young people seeing the sharpest falls in participation. An extra 1.2 million lower qualified workers would take part in training if participation rates equalled those of highly skilled workers.

A relatively high proportion of adults participated in job-related training compared to EU countries – reflecting findings on the relative proportions of employers providing training (Figure 7). Just over 40% of adults (25-64 year olds) participated in employer sponsored job-related training compared to an EU average of 31% in 2016. Generally, countries with higher levels of productivity, including Switzerland and Norway, have higher rates of participation in job-related training.

Figure 7: A relatively high proportion of adults participated in job-related training compared to EU countries

Participation in employer sponsored job-related training (% 25-64 year olds), 2016 (UK)

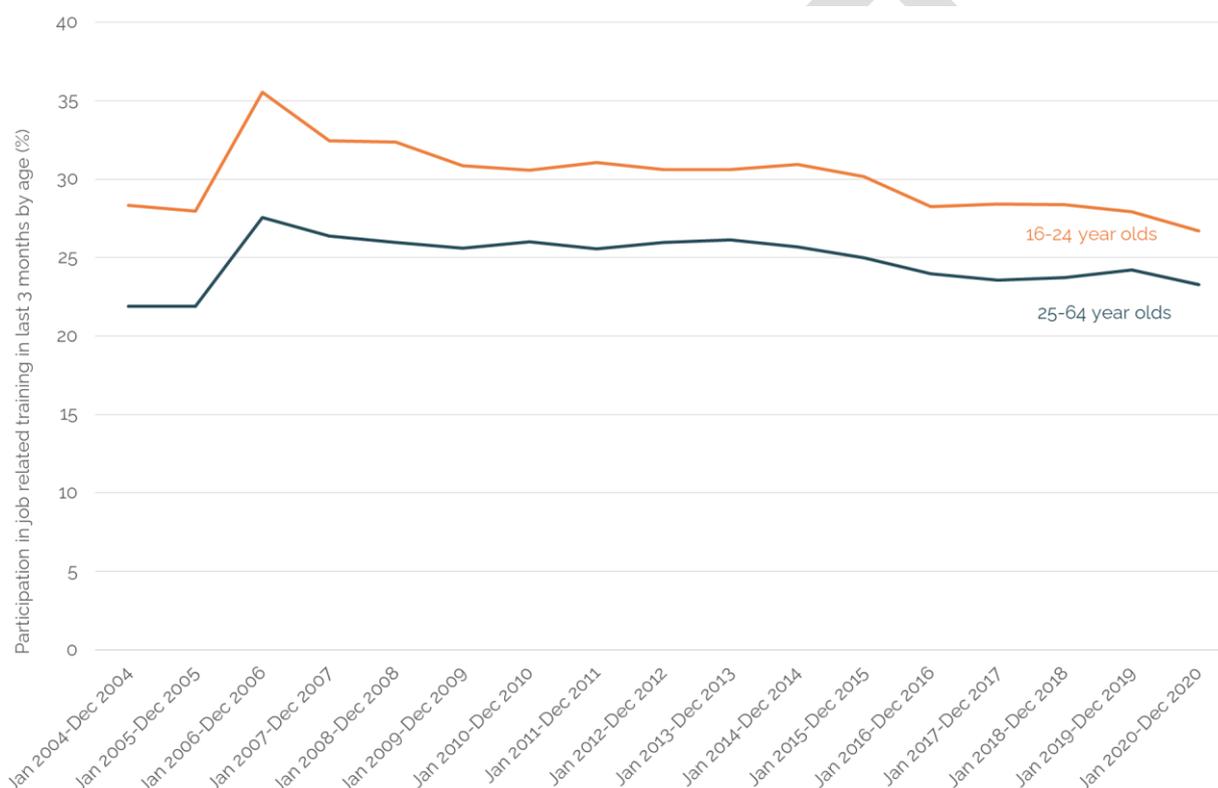


Source: Adult Education Survey, Eurostat, 2021

Following rises in the early 2000s, there has been a general decline in participation in job-related training in the UK.¹⁷ Participation¹⁸ fell by more than 5 percentage points between 2006 and 2020 (from 29% to 24%). The largest declines have been among high and middle skilled occupations, while participation in labour intensive occupations has remained consistently low.¹⁹ Young people have seen the largest decline (although their participation remains higher than for other age groups), falling by 8.8 percentage points compared to 4.3 percentage points for older workers between 2006 and 2020 (Figure 8).

Figure 8: Participation in job-related training among young people has fallen four times faster than over 25s since 2006

Participation in job related training in last 3 months by age, 2004-2020 (UK)



Source: APS, 2021

Inequalities in training in work are likely to put low paid, low qualified workers at a further disadvantage, and widen inequalities and skills gaps.

- People in the lowest paid **occupations** (process and plant operatives, elementary occupations) are least likely to participate in training (Figure 8). People in professional and caring occupations (34%) were three times as likely to participate

¹⁷ Green, F. (2016) The Declining Volume of Workers’ Training in Britain,

¹⁸ Based on those who received training in the last 13 weeks, APS, 2021

¹⁹ Li, J. et al (2020) Trends in job-related training and policies for building future skills into the recovery, Centre for Vocational Education Research, LSE

in training in the last quarter of 2020 than process, plant and machine operatives (11%) and those in skilled trades occupations (13%). Higher training in caring occupations is likely to be driven at least in part by licenses to practice (requirements to train to a certain level in order to get a job, as well as continuing professional development requirements)

- A relatively low proportion (19%) of **managers** participate in training – in part, reflecting patterns in types of training employers invest in. Research shows that recently trained managers use on average 50% more of the structured management practices associated with increased labour productivity (conducting performance appraisals, setting targets and dealing with underperformance quickly) than those not trained within the last 12 months.
- Graduates are four times more likely to have undertaken training compared to those with no **qualifications** (Figure 9). Almost one third (30%) of graduate workers participated in training compared to 1 in 13 workers with no qualifications and less than 1 in 7 of workers qualified below level 2.
- **Older workers** are less likely to participate in training (Figure 10). Nearly one third of 16–19 year olds participated in training in job-related training compared to less than 20% of over 60-year-olds. This may relate to recruitment patterns, with basic induction training accounting for a relatively high proportion of employer training, as discussed previously.
- There are also some differences between **ethnic groups**, with Chinese and Bangladeshi workers less likely to participate in training.
- There are higher levels of participation in South East, South West and North East. **Regional variations** may reflect differences in industrial structure i.e. large public sector in the North East.

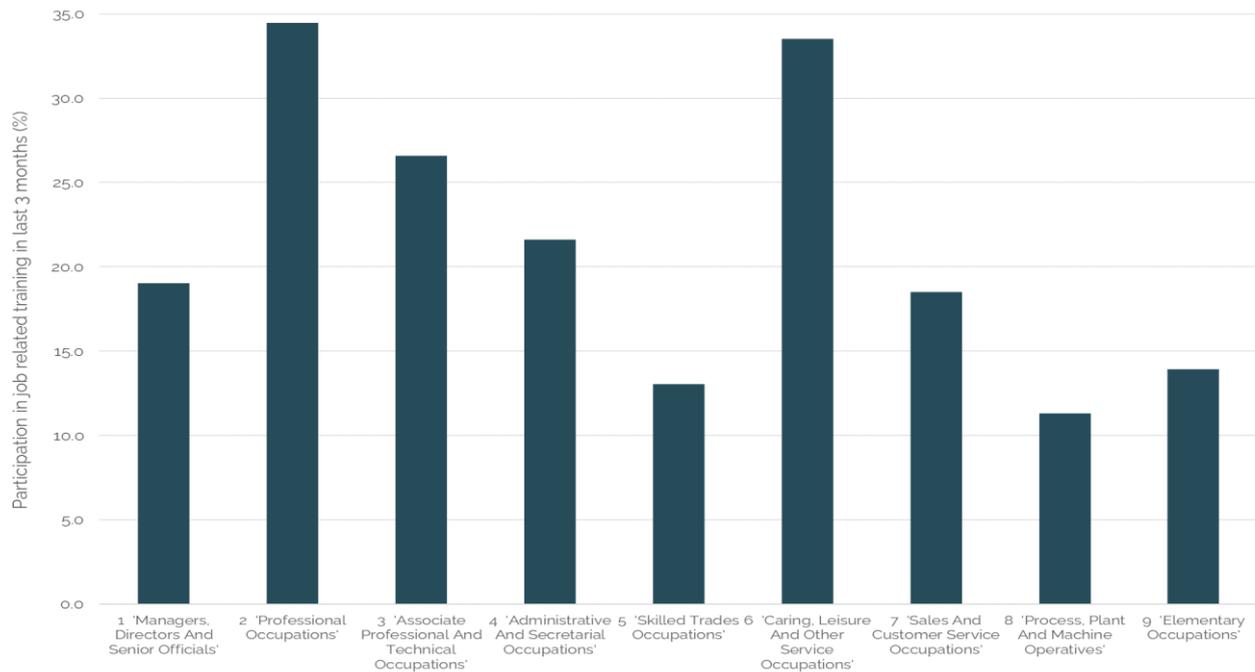
CVER's research shows that less educated, part-time and self-employed workers have been less likely to receive training controlling for sector or occupation.²⁰

If people qualified at or below level 2 were as likely to take part in work-related training as those qualified to level 4 or above, then an extra 1.2 million people would take part in training each year.

²⁰ Li, J. et al (2020) Trends in job-related training and policies for building future skills into the recovery, Centre for Vocational Education Research, LSE

Figure 9: More than 1 in 3 in professional occupations participate in training compared to less than 1 in 8 plant and machine operatives

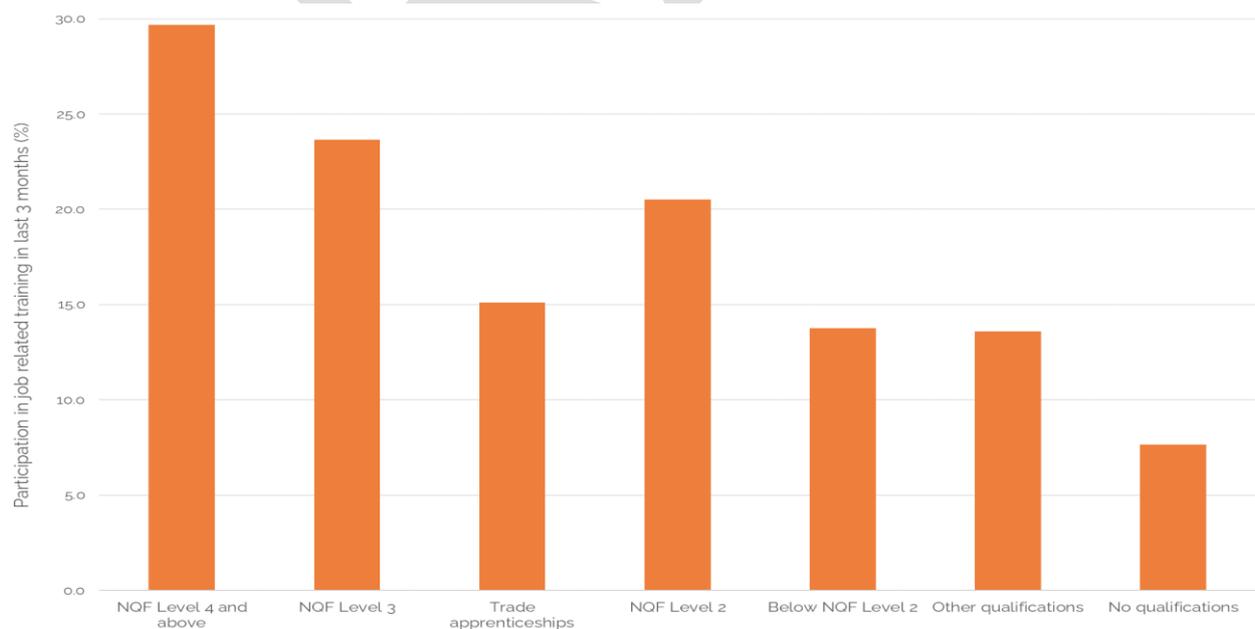
Participation in job related training in last 3 months by occupation, Q3 2020 (UK)



Source: LFS, 2021

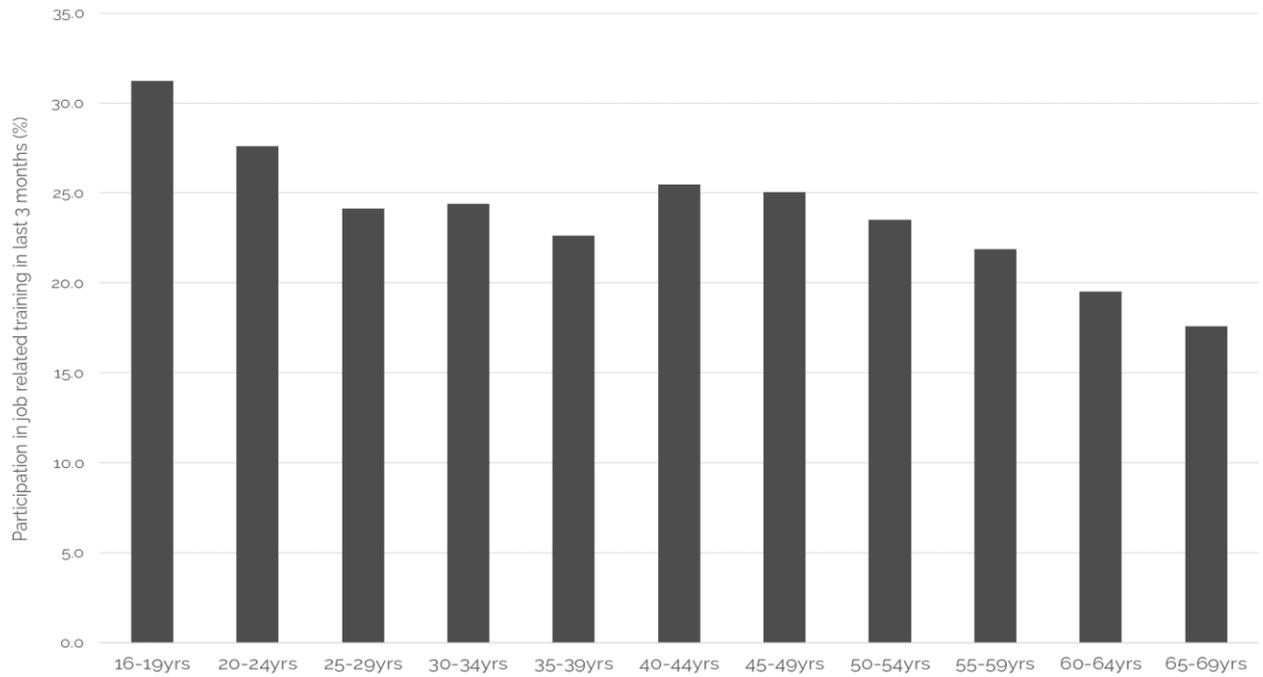
Figure 10: Graduates are four times more likely to participate in job-related training than those with no qualifications

Participation in job related training in last 3 months by qualifications, Q3 2020 (UK)



Source: LFS, 2021

Figure 11: Older workers are less likely to participate in job related training
Participation in job related training in last 3 months by age, Q3 2020 (UK)



Source: LFS, 2021

DRAFT

5 How has the pandemic affected investment in training?

Key findings

Employer investment in training has fallen more sharply during the pandemic than after the financial crisis, particularly among consumer services firms. Based on firms' expectations, it is more likely to have fallen relative to the US and EU countries. Consumer services (which includes travel and hospitality) firms were twice as likely to report a decline in training expenditure than other service firms during the pandemic.

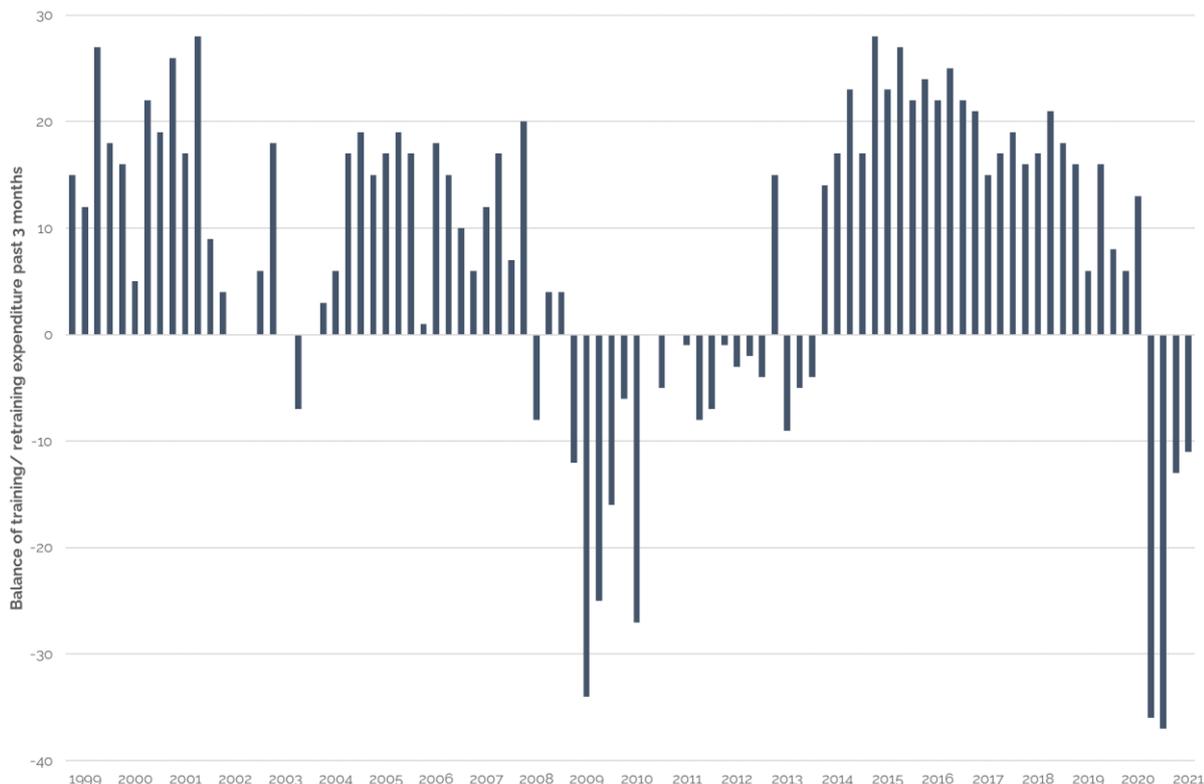
Young people – who have borne the brunt of the employment crisis – have also seen large falls in training during the pandemic, particularly those working in the private sector. The fall in apprenticeship starts is also likely to disproportionately impact young people from disadvantaged backgrounds who are more likely to be concentrated in apprenticeships at lower levels. Participation in training also fell further among skilled trades workers and plant and process operatives.

Employer investment in training has fallen sharply during the pandemic, particularly among consumer services firms.

In August 2020, 43% of firms in the service sector reported a decline in training expenditure in the past three months. This is higher than the financial crisis (39% reported a decline in February 2009) and compares with just 6% of firms that reported increasing expenditure (a 'balance' of -37 percentage points) (Figure 12). A similar proportion of service sector firms reported declines in investment in land and buildings (48%) and vehicles, plant and machinery (37%). Meanwhile, increased digitalisation and remote working meant that firms were more likely to have increased investment in information technology (38%).

Figure 12: Over 40% of firms reported a decline in training expenditure compared to just 6% reporting an increase in August 2020

Changes in businesses' expenditure on training in past three months (services sector)²¹ (UK)



Source: CBI, 2021

Consumer services sectors²² have been among the hardest hit during the pandemic²³ - and this is reflected expenditure on training (Figure 13). Within the services sector, consumer services (which includes travel and hospitality) firms were twice as likely to report a decline in training expenditure in August 2020 (62% compared to 31% of business and professional services firms). Over one half of financial services firms reported a decline in training expenditure over the past three months in June 2020 – larger than during the financial crisis in 2008/09.²⁴

²¹ Questions in the CBI survey are framed relatively and so capture relative changes, not levels (does not provide information on the quality or quantity of training, and under-represents small firms)

²² Consumer services includes: travel services; hotels & restaurants, various “leisure” activities – e.g. arts & entertainment, libraries and museums, gambling/betting, sports & recreation, elements of publishing, broadcasting and TV production; repair of household goods, and other miscellaneous consumer services (does not include retail)

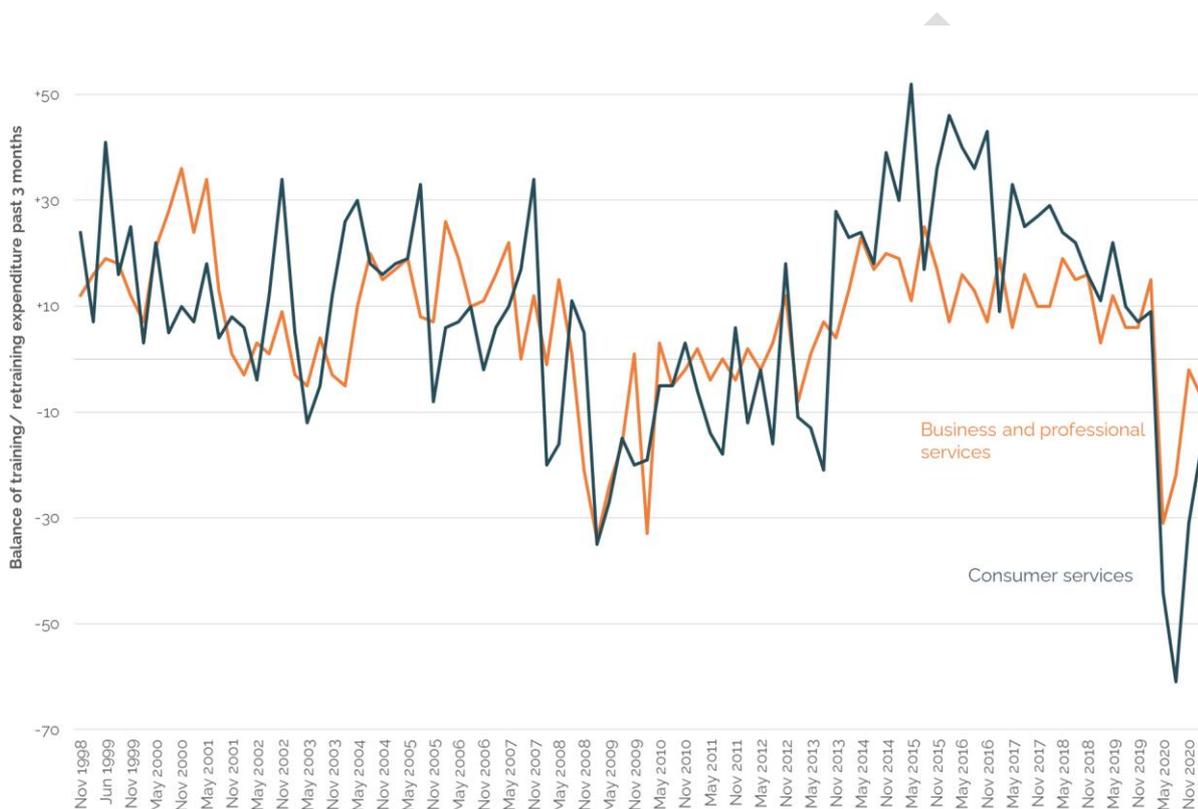
²³ Learning and Work Institute (2021) One year on: The labour market impacts of coronavirus and priorities for the years ahead

²⁴ The CBI’s Financial Services Survey surveys firms on a quarterly basis (March, June, September, December). Questions on training expenditure were discontinued in June 2020.

In the first half of 2020, around one third of manufacturing firms expected to spend less on training in the next 12 months.²⁵ This appears to be part of a longer-term trend with a sharp increase in manufacturing firms expecting to spend less of training in mid-2018.

Figure 13: Nearly two thirds of consumer services reported a decline in training expenditure in August 2020

Changes in businesses' expenditure on training in past three months (business and professional services, and consumer services) (UK)



Source: CBI, 2021

Business and professional services are more likely to expect to increase expenditure as the economy recovers compared to consumer services.

Expenditure is likely to increase with the economic recovery as vaccines are rolled out and the Government eases restrictions. One fifth of services sector firms expected to spend more in the next three months in February 2021 – slightly higher than the proportion that expected to spend less (22% compared to 21%). This is mainly driven by business and professional services, however, as one third of consumer service firms expected to spend less. In January 2021, 20% of manufacturing firms expected to spend more on training in the next 12 months compared to 22% who expected to spend less.

²⁵ The CBI's Industrial Trends Survey asks manufacturing firms about their training expenditure over the next 12 months as opposed to three months in the Services Sector survey.

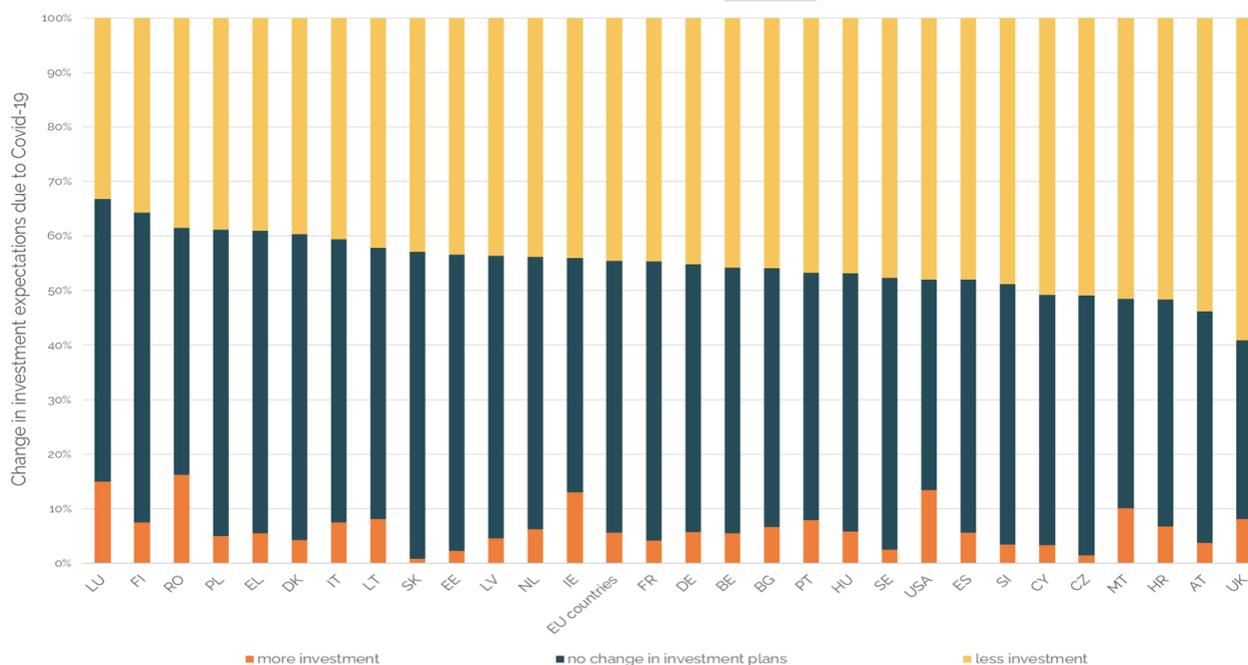
Investment, including investment in training, by UK firms is likely to have fallen significantly relative to the US and EU countries due to the impacts of the pandemic.

Nearly 60% of UK firms expected to invest less in 2020 due to the coronavirus pandemic, with 33% expecting no change and just 8% expecting to invest more (Figure 14). This compares to 48% and 45% of firms expecting to invest less in 2020 in the US and EU, respectively and is the highest proportion among the countries surveyed by the European Investment Bank.

Small businesses are more likely to reduce their investment in training, as levels of business confidence are lower. One in seven micro businesses stated they were at risk of closure in the first quarter of 2021 compared with one in 20 large businesses (250+ employees).²⁶ Small businesses also struggle to achieve the economies of scale that larger businesses can making training more expensive.

Figure 14: Nearly 60% of UK firms expect to invest less due to COVID-19 – the highest among international comparators

Change in investment expectations due to Covid-19 (UK)



Source: EIBIS, 2021

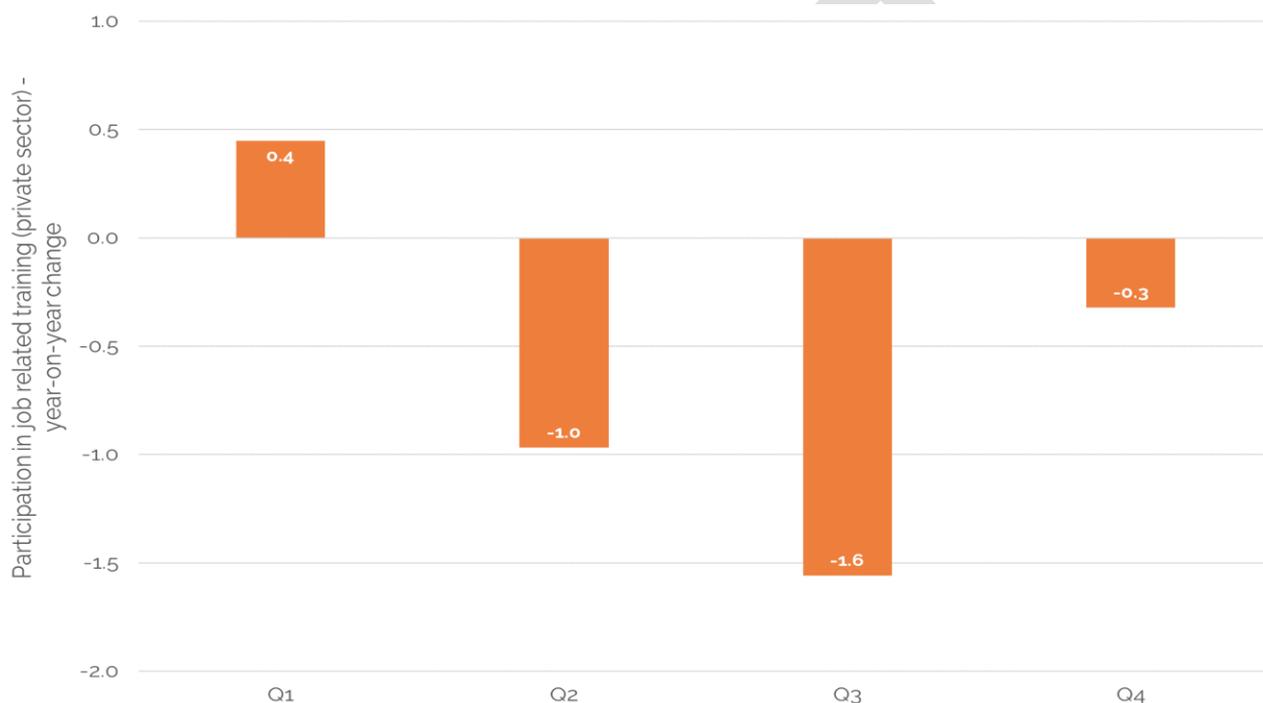
²⁶ Lambert, P. and Van Reenen, J. (2021) A major wave of UK business closures by April 2021? The scale of the problem and what can be done, Centre for Economic Performance, LSE

Young people and manual workers have seen the largest falls in training during the pandemic.

Reflecting falls in investment, participation in job-related training in the private sector has fallen over the last year (Figure 15). In the third quarter of 2020, participation in job-related training had fallen by 1.6 percentage points compared to the previous year. Participation rates increased in the fourth quarter of 2020 but remain below the previous year.

Figure 15: Participation in job related training fell during the pandemic

Year-on-year change in participation in job related training (private sector only), 2019-2020 (UK)



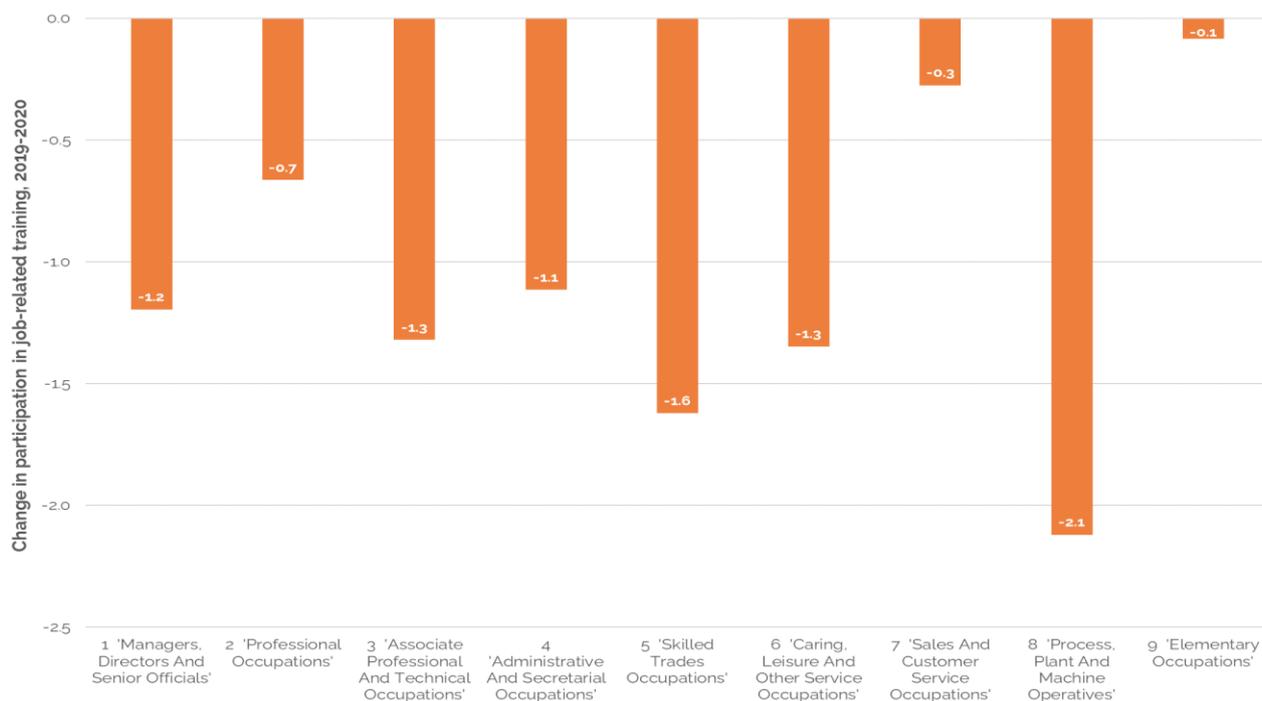
Source: Quarterly LFS, 2021

Training rates appear to have fallen furthest in occupations and sectors where working from home is less prevalent.²⁷ The largest falls in participation in training have been among skilled trades occupations and plant and process operatives between 2019 and 2020 (Figure 16). Based on industry, workers in primary industries, utilities and transport are most likely to have seen a fall in training participation.

²⁷ Li, J. et al (2020) Trends in job-related training and policies for building future skills into the recovery, Centre for Vocational Education Research, LSE

Figure 16: Workers in manual occupations have seen the largest falls in job-related training during the pandemic

Change in participation in job related training by occupation, 2019-2020 (UK)



Source: Annual Population Survey, 2021

Young people, particularly those in the private sector, have seen the sharpest falls in participation in training, which may be linked to falls in recruitment (Figure 17).²⁸ This is reflected in a similar pattern for apprenticeships. The Sutton Trust found in April 2020 that just two in five apprenticeships were continuing as normal, with the remainder furloughed (36%) or made redundant (8%) or having their off-the-job learning suspended (17%).²⁹ During the first lockdown (March to July 2020), apprenticeship starts fell by 46%.³⁰ The latest figures (August 2020 to January 2021) show that apprenticeship starts are down by 18.5% compared to the same period the year before.

The falls have been sharpest for young people and apprenticeships at level 2. Starts by under 19s fell by one third over this period, compared to a 7% fall among over 25-year-olds (Figure 18). The largest falls by level of apprenticeship were in intermediate apprenticeship (both in absolute and proportionate terms), falling by 23,500 or 36% between 2019/20 and 2020/21.

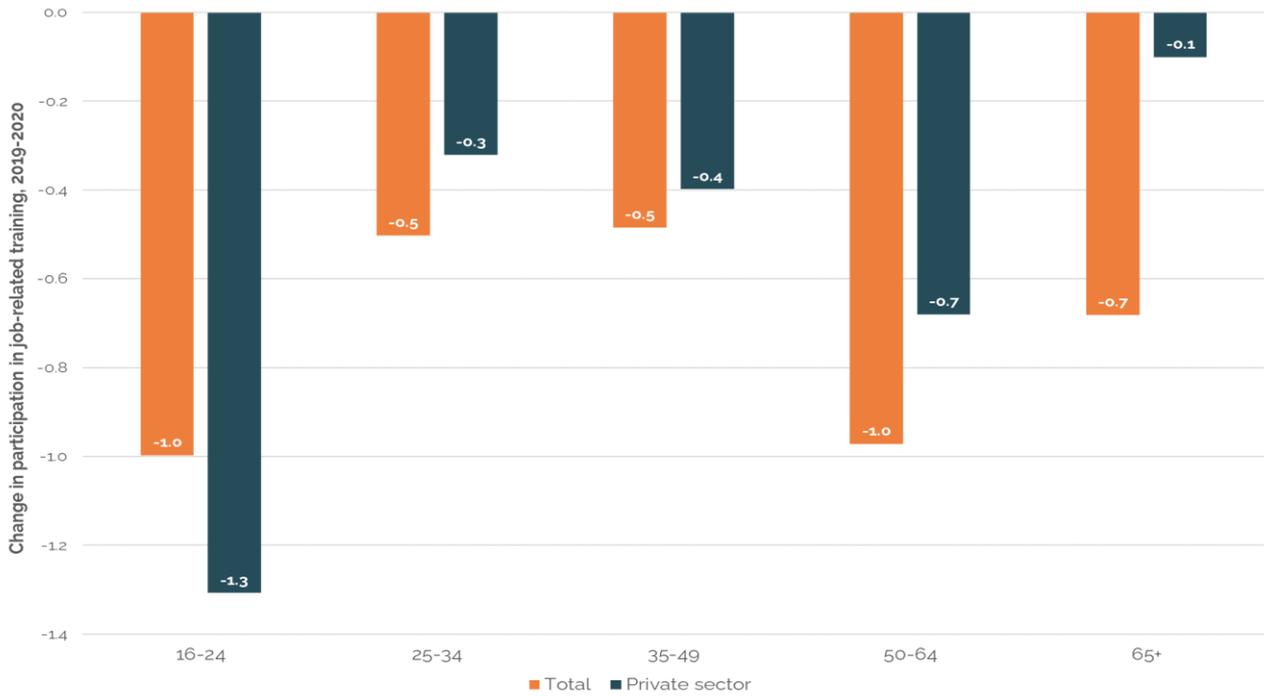
²⁸ See Learning and Work Institute labour market analysis <https://learningandwork.org.uk/what-we-do/employment-and-social-security/labour-market-analysis/> for further detail

²⁹ The Sutton Trust (2020) COVID-19 and Social Mobility Impact Brief #3: Apprenticeships

³⁰ IFS (2021) Inequalities in education, skills, and incomes in the UK: The implications of the COVID-19 pandemic

Figure 17: Rates of participation in job related training have fallen furthest among young people

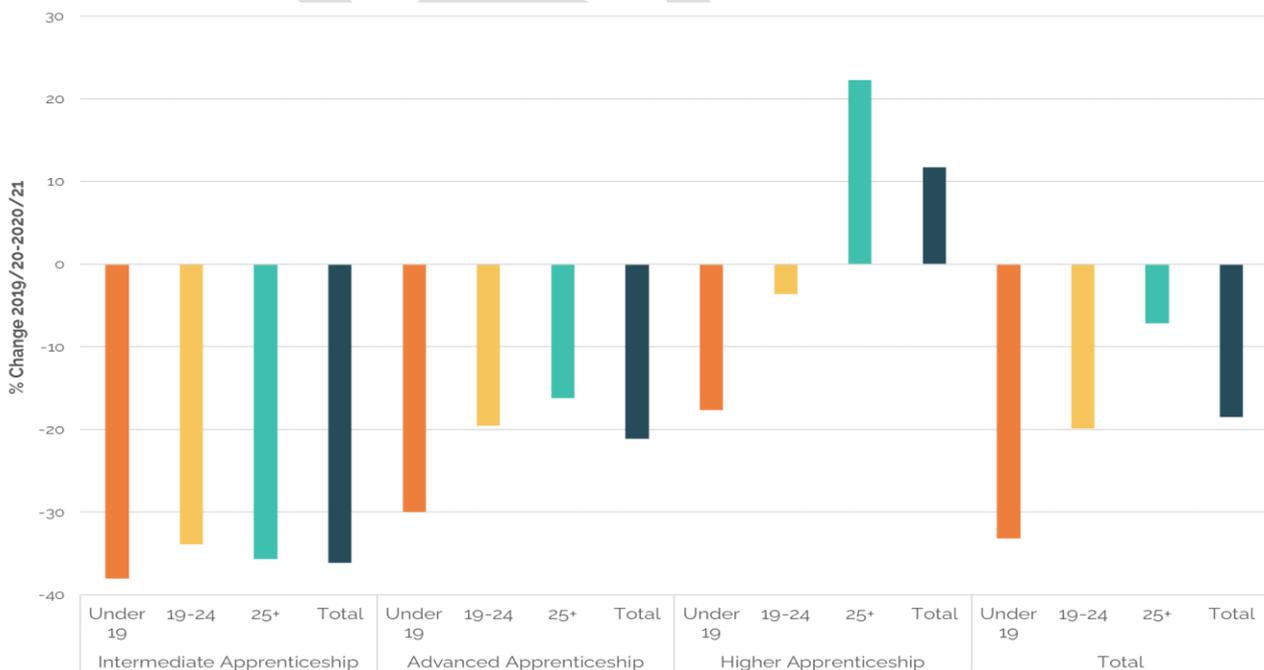
Change in participation in job related training by occupation, 2019-2020 (UK)



Source: Annual Population Survey, 2021

Figure 18: Apprenticeship starts among 16- to 18-year-olds fell by more than one third in 2020/21

Change in apprenticeship starts (%), 2019/20-2020/21 (August to January) (England only)



Source: DfE, 2021

6 Government support for employer skills

Key findings

The Government plays a significant role in employer investment in skills. This includes: **provision**, directly funding provision through the adult education budget and national skills fund; **apprenticeships**, funding apprenticeships for SMEs and setting apprenticeship levy rules for large employers; and **tax relief**, with employer's spend on training able to be deducted from Corporation Tax calculations.

Increasingly policy reinforces inequalities in access to learning that reflect historic employer patterns of investment, rather than tackling them. The apprenticeship levy system has led to an increase in higher apprenticeships and for older, already-employed staff members at large firms, with a concomitant fall in apprenticeships at lower levels and for young people. Corporation Tax relief is based on patterns of employer spend, which have long been skewed toward the already-highly skilled. Funding for the adult education budget has been cut significantly since 2010.

In total, the Government's direct involvement in employer skills is up to £6.8 billion per year. This includes funded provision through the adult education budget (£1.5 billion) and other funding streams (£0.6 billion), funding and rules for apprenticeships and the apprenticeship levy (£2.7 billion), and tax relief for companies and self-employed people (up to £2 billion).

Government investment in work-related training in England has fallen over time

Spending on apprenticeships, including apprenticeship levy spending by employers, rose by about 50% in real terms from around £1.31 billion in 2009/10 to £1.97 billion in 2019/20 (Figure 19).³¹ Yet, overall spending on work-based learning for adults, including apprenticeships, has fallen by about 18% in real terms since 2009/10. This equates to a 26% decrease per worker, as the numbers in employment increased. Government spending on adult education has fallen by 50% in real terms since 2009/10.

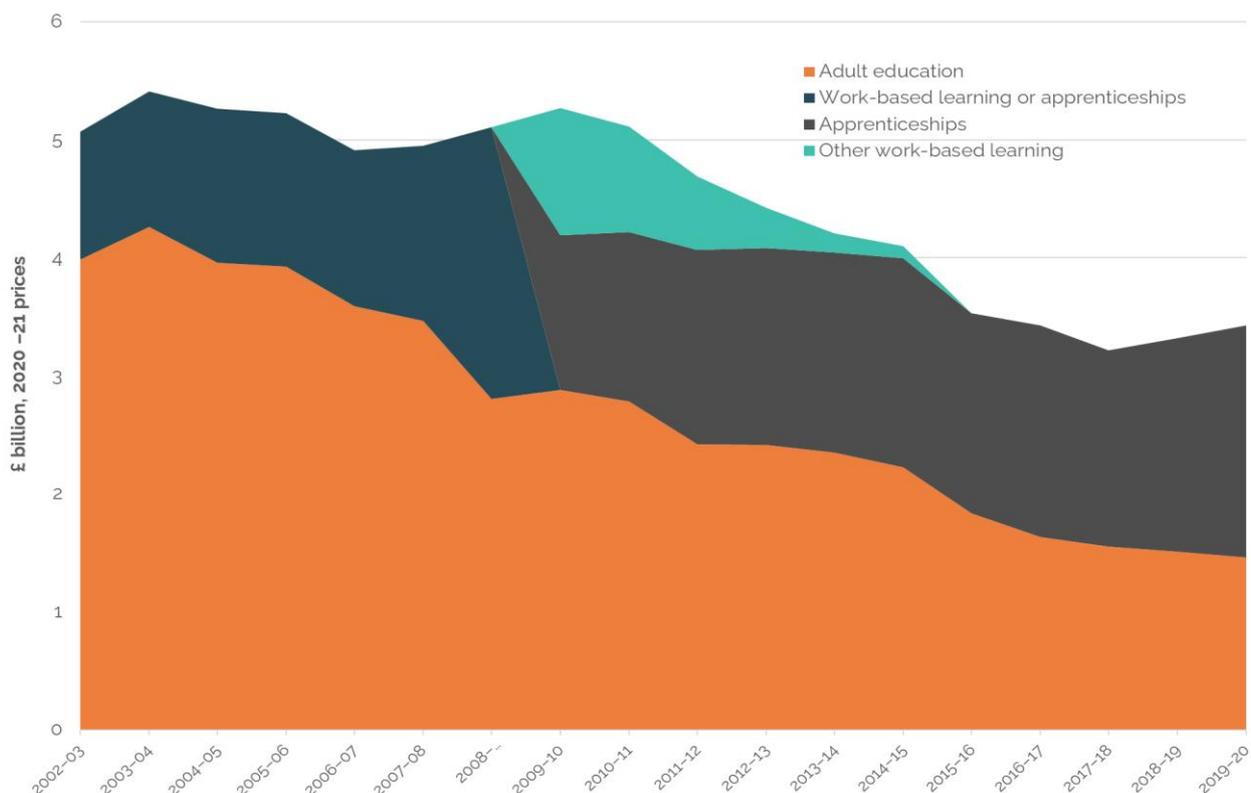
The balance of where spending goes has changed as a result. The elements (like the adult education budget) that are more focused on basic skills and lower level learning have been cut and new funds (like the National Skills Fund) are more focused on level 3. Similarly, apprenticeships at level 2 have fallen, and higher-level apprenticeships have grown (see below). Similarly, the new Lifetime Skills Guarantee contains a welcome entitlement for adults in England to a free, first level 3 qualification. However, it excludes lower productivity sectors like retail and hospitality which could potentially benefit

³¹ IFS (2020) 2020 annual report on education spending in England. 'Adult education (classroom-based)' includes all 19+ skills expenditure (excluding work-based learning, apprenticeships, higher education and offender learning). 'Work-based learning' includes Train to Gain. Apprenticeships include 16–18 and 19+ apprenticeships.

significantly from skills improvements. Growing level 3 and above learning is a good aim, but if it comes at the expense of basic skills and level 2 then it risks limiting opportunity.

Figure 19: Spending on work-based learning has fallen by almost a fifth over the last decade

Total government spending on adult education and skills (England only)



Source: Institute for Fiscal Studies, 2020

Tax relief on the costs of training for businesses and self-employed people are a further form of substantial Government support

The government also supports training by employers through Corporation Tax and relief and for the self-employed through PAYE relief. New calculations for this research estimate the total value of these reliefs may have been £1.3-2 billion in 2018-19 (Figure 20).

The **Corporation Tax** relief means that eligible training expenses (in particular direct costs of training associated with development in the current role and focus of the business) are tax deductible for employers when calculating Corporation Tax liabilities.

Rough estimates, based on levels of expenditure reported in the ESS 2019, suggest that tax relief for training equalled up to £1.3 billion in 2018-19 (see Annex for the methodology used). This compares to total Corporation Tax receipts in 2018-19 of around £55 billion.³²

³² Annual Corporation Tax Statistics commentary, HMRC, 2019.

Levels of subsidy through tax relief have followed trends in employer investment, with falls in amounts around the time of the financial crisis and in 2018-19 (Figure 20).

The nature of this relief means that passively follows employer investment decisions without seeking to influence them. In this way it reflects, and in many ways (given training for already highly skilled employees, who are more likely to receive training) reinforces, unequal access to training at work. In addition, it is only an incentive if firms are making a profit for Corporation Tax purposes (or would without making allowance for training costs). This means it provides no incentive or support for businesses making a loss (for whom training could potentially improve their prospects) or for charities or others.

Figure 20: Tax relief on employer and self-employed expenditure on training, £m, 2019 prices



Source: Authors calculations using IDBR, BRES, HMRC, ESS 2007-2019. See Annex for further detail.

The Government has announced plans to raise Corporation Tax to 25% for profits over £250,000 by 2024-25.³³ This would, all else equal, increase the value of tax relief by around £200 million per year.

In a similar way, self-employed people can take account of the direct costs of training relevant to their work in calculating their tax liabilities. We estimate this was likely worth around £600 million in 2018-19 (see Annex A for methodology). The value of this relief has not changed as much over time as Corporation Tax relief: the average training spend has

³³ Budget 2021: Protecting the jobs and livelihoods of the British people, HM Treasury, 2021.

fallen meaning that relief per self-employed person fell, but this has been partly offset by increases in the number of self-employed people up until the pandemic.

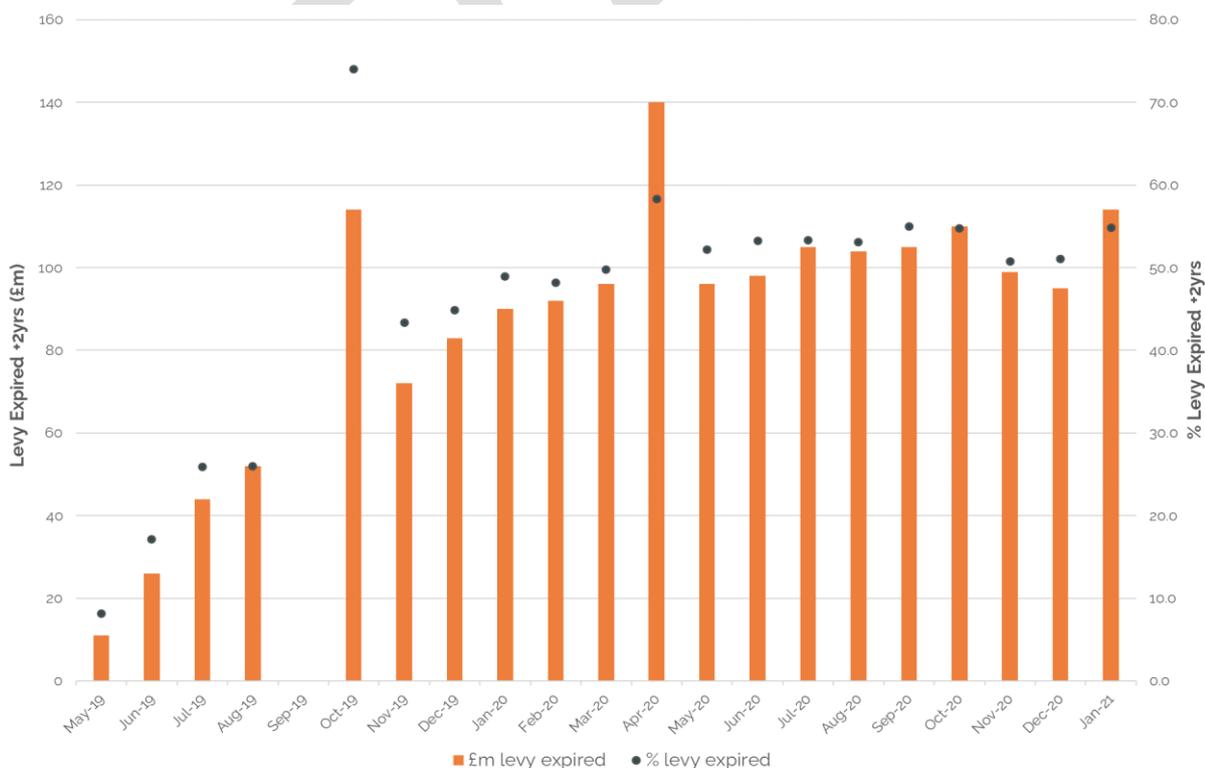
Apprenticeships have fallen most sharply for young people and at level 2 since the introduction of reforms including the apprenticeship levy

The apprenticeship levy, which came into force in April 2017, is a 0.5% levy on employers with an annualised pay bill of over £3 million. It is estimated to raise £2.7 billion per year. Levy paying employers can use funds – along with a 10% top-up from government – to cover training and assessment costs and transfer up to 25% of their apprenticeship funds to other employers. If funds remain unused two years, they expire and are no longer available to the levy-paying employer. The levy was built on the assumption that levy payers would spend 60-70% of their levy, with the remainder used to fund the wider apprenticeship system – including 95% of the cost incurred by small and medium sized employers.

Initially it appeared levy payers were spending a higher proportion of their levy funds than expected. This brought the risk of a significant overspend. However, the proportion of levy funds used before expiring had fallen back to 50-60% by late 2019/early 2020 – below the planning assumptions (Figure 20). Levy fund expiry has increased further during the pandemic, reflecting multiple lockdowns and the labour market situation.

Figure 21: Proportion of apprenticeship levy funds expiring per month

Expired levy funds (£m and %)



Source: DfE FOI requests, 2019-2021

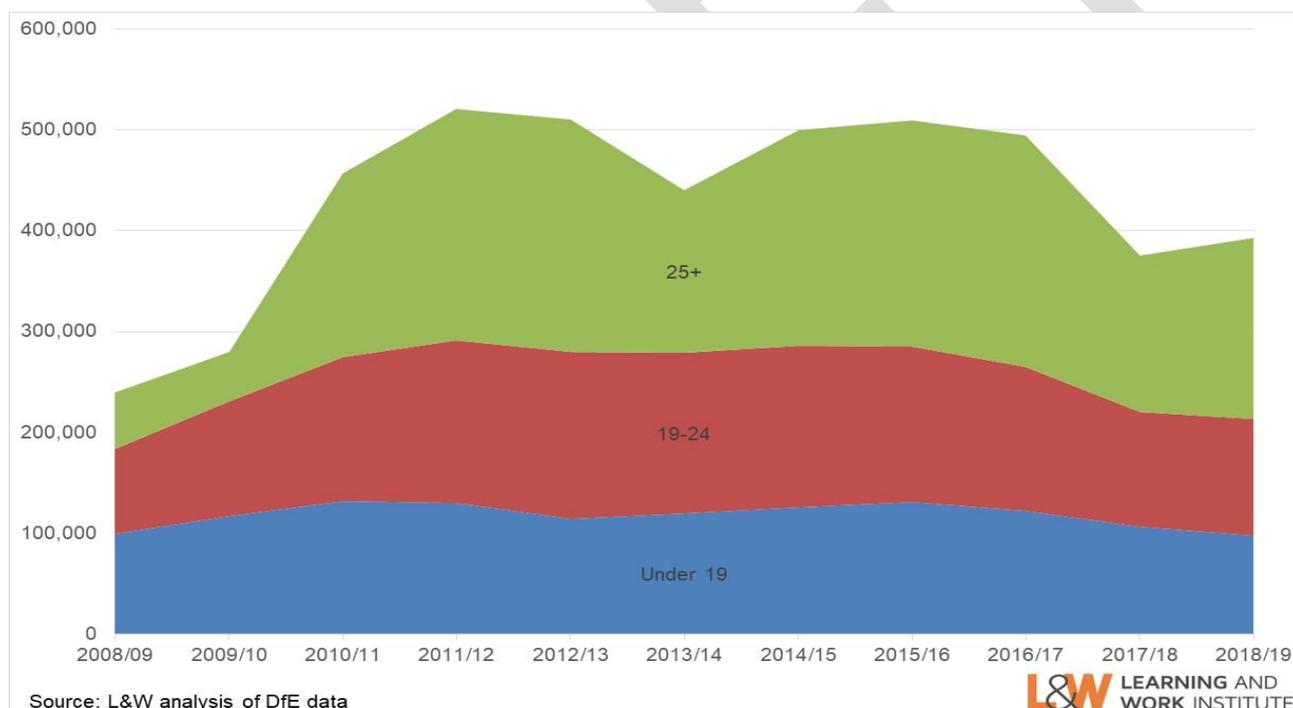
NB. Funding expiry was cancelled for September 2019

The number of apprentices and the proportion of employers with apprenticeship starts has fallen year-on-year since the introduction of apprenticeship reforms.

Since apprenticeship reforms were introduced, apprentice numbers have fallen significantly. There were 393,400 apprenticeship starts in England in 2018/19, 20% lower than in 2016/17. The pandemic has then led to a further fall, as the previous chapter detailed.

Alongside the fall in apprenticeships, the age profile of apprentices changed with the introduction of apprenticeship reforms. Apprentices aged over 25 and above accounted for 46.8% of apprenticeship starts in 2019/20, an increase from 41.4% in 2017/18. The share of apprentices aged under 19 fell from 28.4% of apprenticeship starts in 2017/18 to 23.6% in 2019/20. This is linked to a shift in apprenticeships by level, with sharp growth (from a low start) in degree apprenticeships and sharp declines in level 2 apprenticeships.

Figure 22: Annual apprenticeship starts in England by age

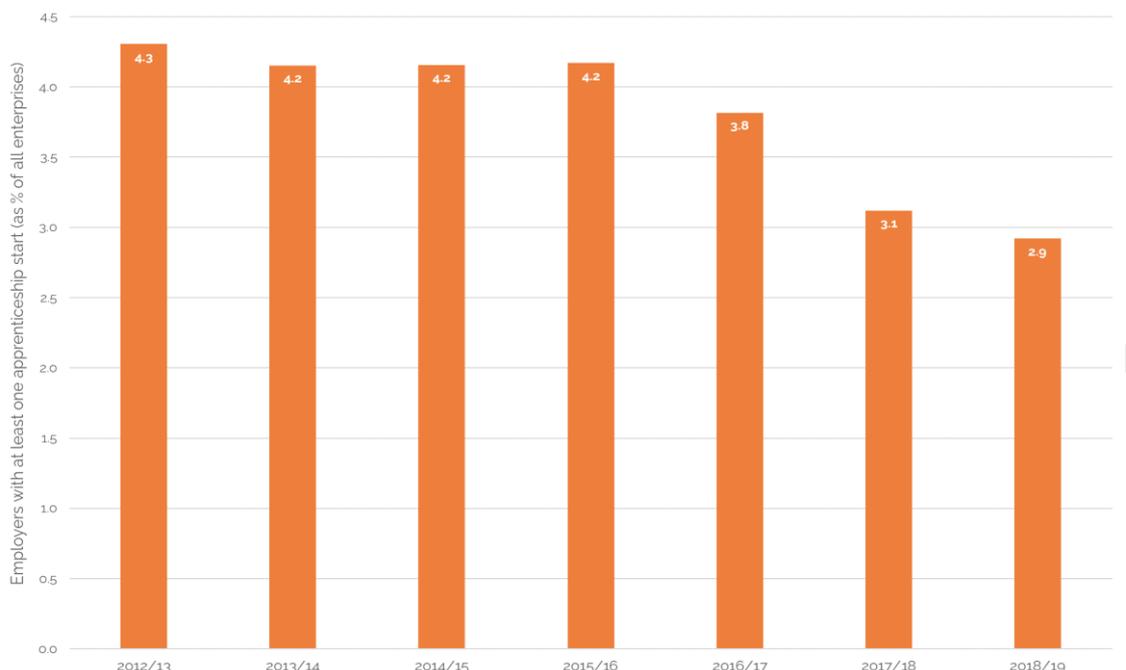


The proportion of employers in England with apprenticeship starts fell from 4.2% in 2015/16 to 2.9% in 2018/19 (Figure 8). Large businesses are far more likely to have at least one apprentice compared to small businesses. Nine in 10 large businesses (250+ employees) have at least one apprentice compared to 1 in 50 small businesses (<50 employees). There was a 31% fall in small businesses with apprenticeship starts between 2015/16 and 2018/19, while the number of large businesses with apprenticeship starts

increased by 8%. The fall in employers offering apprenticeships has led to a decline in apprenticeship starts, which fell by 23% between 2015/16 and 2018/19.³⁴

Figure 23: The proportion of employers with apprenticeship starts has fallen since 2015/16

Employers with at least one apprenticeship start as a % of all VAT and/or PAYE based enterprises (England only)



Source: DfE, 2019 and IDBR, 2020

All of this is underpinned by the incentives created by apprenticeship reforms. These reduce the funding incentives to take on new apprentices at lower levels compared to converting existing employees to be apprentices. There is also evidence employers have reworked or refocused their existing training programmes to be apprenticeships, as large firms look to recoup as much of their apprenticeship levy funds as possible.³⁵

Taken together, there are fewer apprenticeship opportunities for young people, new starters and at lower levels of learning. This is the product of funding and policy incentives.

³⁴ Department for Education, 2021

³⁵ Levy paying employer decisions and accounting for prior learning, L&W, 2020.

7 Conclusion

The majority of employers offer some form of training. But it tends to be shorter and cheaper than in other countries, with already highly skilled and paid employees far more likely to get access to training.

In addition, employer investment in skills was declining prior to the pandemic – and has fallen further during it. This is driven in part by lower economic growth in the decade following the financial crisis plus economic uncertainty in recent years. The pandemic has then led to sharp falls, particularly in consumer services and relative to other international economies, as firms were impacted by social distancing restrictions.

Beyond these headline trends, there are stark inequalities in training between demographic groups and across sectors. Participation in work-related training has historically been lower for low paid, low qualified workers, and has particularly fallen for young people during the pandemic. Training is lower in occupations such as skilled trades and recent data shows that higher value, more knowledge intensive sectors have increased investment in training, while investment among lower wage sectors has fallen.

The Government plays a significant role in employer skills, investing £1.5 billion each year in the Adult Education Budget (a proportion of which is employer-related), £3 billion over five years planned for the National Skills Fund, setting the rules for the £2.7 billion apprenticeship levy and wider apprenticeship system, and up to £2 billion per year in tax relief for companies and self-employed people.

However, policy is increasingly reinforcing rather than reducing inequalities. Firms get greater corporation tax relief the more they spend, and training for those already-highly skilled tends to be more expensive. Apprenticeship reforms, in particular the introduction of the levy, have left employers to make decisions about where to invest without incentives to invest in young people or those with fewer qualifications. The result has been an unsurprising replication of the general employer pattern of investment in skills (with greater focus on those with the highest skills) in apprenticeships. Meanwhile, cuts to the adult education budget mean fewer opportunities for people to learn at lower levels: participation in adult basic skills provision is down 40% in the last five years.

Will employer investment in skills bounce back as the economy recovers? Can we increase employer investment relative to other countries and reduce inequalities between groups and sectors? This will be essential to future economic growth, business success, and widening individual opportunity.

Where next?

Our next report will look at policy options for increasing employer investment in skills and cutting inequalities in access to workplace learning. That will include looking at possible reforms to the Apprenticeship Levy and the role of the tax system.

Annex A. The value of tax relief on training

HMRC do not publish assessments of the value of **corporation tax relief** on training. Calculating an estimate is challenging but we have followed the following methodology:

1. Estimate the amount of training spend in scope.

- We do this by starting with the Employer Skills Survey (ESS) estimate of off-the-job training expenditure. We estimate a range as the extent to which different costs will be eligible will vary according to circumstance. The 'upper bound' costs exclude trainee wage costs, while the 'lower bound' costs exclude trainee wage costs and training management costs.
- We pro rata this down to an estimate of private sector spend (as corporation tax does not apply to the public sector) based on the private sector's share of total employment. This may be an over-estimate as the public sector is more likely to train than the private sector
- As the ESS excludes Scotland, this range is then scaled up to a UK estimate using Scotland's population share in the UK.

2. Estimate the amount of in-scope training spend that could be eligible for relief.

- We do this by using HMRC data on the proportion of firms that pay corporation tax. This could be an underestimate as large firms (who are more likely to earn enough profits to be paying corporation tax) are more likely to train. Similarly, we do not account for firms paying no corporation tax who would be liable if training spend was not tax deductible.
- However, it could be an overestimate if employers do not claim all they are entitled to, or if our estimates of eligible spend are inaccurate.

3. Estimate the value of tax relief.

- We then estimate the potential value of tax relief by multiplying the in-scope, eligible training spend by the corporation tax rate in each year being analysed.

Tax relief is also available on investment in eligible training by **self-employed people** but HMRC do not publish estimates of its value. To estimate the potential value of this, we have taken a similar approach:

1. Estimate the potential training spend per person by employers that may be eligible for tax relief

- To calculate this, we start with the average training spend per employee reported in the National Employer Skills Survey (NESS). We then deduct a proportion of this to

remove on-the-job training (usually around 50% each year) and further reduce the figure to reflect NESS data on the proportion of training spend accounted for by items likely to be ineligible for tax relief, such as management of training by employer's staff.

- This may be an underestimate if off-the-job training is more expensive than on-the-job training, and if the cost per person of such training is larger for self-employed people (due to the absence of economies of scale). But it may be an overestimate given our data are an average for the whole economy, but private sector employers are less likely to train than the public sector.

2. **Estimate the potential per person and total spend by self-employed people that could be eligible for tax relief**

- We assume that self-employed people are half as likely to undertake training as those in employment. This is based on estimates from the Annual Population Survey. That gives us an estimated spend per self-employed person that may be eligible for tax relief.
- We then multiply that spend per person by the total number of self-employed people, estimated by the Labour Force Survey.

3. **Estimate the value of tax relief**

- We then estimate the potential value of tax relief by multiplying the in-scope, eligible training spend by an estimate of the rate of tax relief. The rate of tax relief will be their income tax rate and depend on their incomes. Given the distribution of self-employed people's incomes, we use a flat rate estimate of 25%. This assumes average tax payments are mostly at the basic rate but with some at the higher rates. This may be an under or overestimate, depending on how training investment among self-employed people varies by income.

Ultimately these are estimates. There are a range of reasons, detailed above, of why they may be an over or underestimate. However, they are based on realistic assumptions and intended to give a sense of scale.