Learning for life

Funding a world-class adult education system

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People and Skills

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Executive summary

Getting reskilling right is vital to increase living standards and level-up opportunity across the country

Before Covid-19, the CBI and McKinsey researched skills gaps over the next decade. Nine in ten workers will need some form of reskilling by 2030, this is an issue that affects everyone. Virtually every job will change – some incrementally, some radically:

- Twenty-six million workers will require **upskilling** as their role evolves
- Five million workers will go through a more fundamental job change and require **retraining**.

There is a huge upside from investing in reskilling for workers:

- An 8-10% boost to 2017 GVA, equivalent to a £150-190 billion uplift by 2030;
- Increased job satisfaction and higher wages for employees;
- Fewer individuals needing state income support and;
- Increased competitiveness for UK businesses.

Even before the crisis there was a risk of automation causing an unjust transition…

Automation and technology will bring millions of new jobs in the UK: There will be a big rise in demand for skills such as digital, STEM and interpersonal skills.

But many other roles will change significantly or disappear, and the occupations that are most likely to shrink have the lowest rates of training, the highest unemployment rates, and the lowest wages.

…and Covid-19 will impact opportunity for the poorest the hardest if the UK fails to act now and act together

Businesses have had to make difficult decisions about staff retention, changes in working practices and speeding up digital adoption and automation in 2020 and 2021.

Without bold action, growing skills gaps and job shortages will hit the poorest people and regions the hardest and deepen inequality.

Common challenges are holding back investment

Businesses spend £44 billion a year on training, but despite its growing importance, investment in adult learning has stagnated over the last decade.

Small employers also face unique barriers in delivering training, including a lack of capacity and scale.

The Apprenticeship Levy was introduced in 2017 and intended to help increase investment in training, but many Levy-paying businesses have found it challenging to use for their training needs.

Government has underinvested in adult education. Only 2% of current education spending currently goes on adult learning.

Many individuals either do not think that their roles will be impacted by technology, aren't sure what skills would help them to succeed in the future or lack confidence in their ability to learn.

These shared problems raise some big questions:

- What are the right policies and incentives to unlock more businesses investment in training?
- How can government and larger businesses support SMEs to overcome barriers that prevent them training?
- How can workers who have the largest jumps to make in their skills be properly supported to retrain?
- How can individuals be encouraged to invest in their own learning?

A step change is needed from government and business to increase investment in reskilling

The UK needs to spend an additional £130 billion on training over ten years. Given the scale of opportunity from getting this right and the consequences of getting it wrong, business, government and providers must work together to increase investment in upskilling and retraining.

The announcements made by the government on the 29th September, including a 'lifetime skills guarantee' for adults without a an A-level or equivalent qualification and a flexible loan system to support bitesize learning, are an important first step.

The government has a crucial role to ensure that increased investment delivers the greatest possible impact. Policy should create the right conditions for all businesses and individuals to prioritise training and increase investment.

Increasing business investment in training

- Turn the Apprenticeship Levy into a Skills and Training Levy that will support higher levels of investment in training

Increasing SME investment in training

- Introduce training tax credits for SMEs to encourage more investment in training
- Ensure local and sub-regional bodies have the resource and capacity to deliver locally targeted and co-ordinated support which provides training and workforce development support to SMEs

Getting individuals to invest more in their own learning

- Work closely with Higher and Further Education institutions ahead of the introduction of the new flexible loans entitlement to encourage and support providers to develop more bite-sized, flexible and online learning to individuals.

Supporting individuals with the biggest retraining needs

- Turn 'Job Centres' into one-stop-shop 'Jobs and Skills Hubs' to support workers looking to retrain
- Introduce Career Development Accounts for unemployed individuals and those with the biggest retraining needs
- Create a National Reskilling Action Plan to foster a cultural change towards lifelong learning

"The UK needs a step change in its approach to adult reskilling to support the vision for levelling-up opportunity for people across the country."

Getting reskilling right is vital to increase living standards and level-up opportunity across the country

Even before Covid-19, it was clear that the world of work in 2030 was going to look considerably different to today. Tasks, roles and entire jobs were set to transform, as technology rapidly changes work and drives up demand for new and higher skills. This new CBI research shows that capitalising on this opportunity will require a large investment. According to research conducted before the onset of the pandemic, upskilling and retraining people to give them the skills they will need to succeed will cost an additional £130billion by 2030. The Covid-19 crisis has intensified this challenge and has made covering this cost much more challenging for government, business, and individuals. Adult learning is one of the defining issues of our age, and the countries that get it right will have an exceptional competitive advantage as the global economy recovers. This could be a huge opportunity, or the catalyst for unemployment, skills mismatches, and growing inequality. The UK's path will be determined by how successfully it increases investment and participation in adult education. That is why we need the partnership of the century between business, government, the education sector, and workers to level-up opportunity across the UK and ensure that everyone benefits from the recovery.

Reskilling is one of the biggest issues facing the UK – getting it right is essential to creating opportunity, improving international competitiveness, and building back better from this crisis

Virtually every job will change over the next decade – some radically, some incrementally. Before the pandemic, the CBI and McKinsey conducted research into the scale of the skills gaps likely to emerge across the coming decade. This work estimated that by 2030, over 30 million people – equivalent to 90% of the current workforce - would need to be reskilled. Dividing this up, 5 million workers (one in six) will go through a radical job change and require "retraining", while 25.5million will require upskilling as their role evolves **(Exhibit 1.1)**.[1] This is an issue that affects almost everyone. An estimated 80% of the 2030 workforce have already left formal education and are either employed or looking for work.[2] This puts adult learning at-work at the centre of the reskilling challenge.

Upskilling ('Top up') A refresh, revisit or development of skills through continuous learning and training programmes. It allows an individual to keep up-to-date with technological and business developments, such as new compliance policies or working conditions.	**Total:** 25.5 million
Retraining The process of learning a new vocation or skillset, so that an individual can adapt to new responsibilities, a new role, or a new job or career altogether.	**Total:** 5 million

Source: CBI and McKinsey analysis

Exhibit 1.1 Definitions of retraining and upskilling

The UK needs a step change in its approach to adult reskilling to support the vision for levelling-up opportunity for people across the country. Employers and government must work in partnership to seize the opportunity to build back better from Covid-19 to implement bold solutions on reskilling. There is an opportunity to capitalise on the appetite for, and experience of, rapid innovation adoption and demand for new skills seen during the Covid-19 pandemic to drive an inclusive and sustainable economic recovery.

Ensuring that the UK population is prepared for the future of work is also essential to improve competitiveness. Lifelong learning starts at an early age. The UK's education system provides a solid foundation, ranking 11th in the World Economic Forum's Global Competitiveness Index.[3] Yet this same index shows there is room for improving training and reskilling opportunities (29th) among the workforce.[4] With skills availability a key factor for firms deciding where to innovate and expand, the UK can forge a new place in the global race by creating an extensive pool of talent. Success over the next decade means, being on track for individuals and businesses to have the future skills they need to work, learn, and build successful careers.

Long-term investment in reskilling is vital to level up opportunities for individuals, as well as across all regions of the UK

To prevent new skill gaps from emerging the UK needs to spend an additional £130 billion over ten years (£13 billion a year) on adult education, a 25% increase on current expenditure.[5]

This is the equivalent of an additional £4,300 per worker over ten years, this is a bold, but achievable target. There are huge upsides to increasing investment in reskilling: a larger more productive economy (8-10% boost to 2017 GVA, or £150-190 billion by 2030), which will only of greater importance in a post-Covid era; increased job satisfaction and higher wages for employees; fewer individuals needing state income support; and increased competitiveness for UK businesses.[6]

The challenge will be in the execution: targeting the spend to the right people (it will cost 4 times as much to retrain a worker than to upskill them), engaging the 34% of employers who provided no training at all last year, ensuring that money is spent effectively (training can boost productivity by more than 40% or not at all), and who funds what.[7, 8]

Employers and government need to work in partnership to develop a radical approach to reskilling to ensure that the UK emerges stronger from this crisis. The challenge is a big one – but with the right solutions, and an increased investment in skills, the UK could gain a huge source of competitive advantage as the global economy recovers.

Even before the crisis there was a real risk of an unjust transition in a changing labour market

Automation and new technology will bring millions of new jobs in the UK, with jobs gained exceeding jobs lost by one million.[9] Yet many roles will change significantly or disappear altogether across many different sectors.[10]

This comes at a time when adult participation in training has fallen significantly in recent years. Just one third (33 per cent) of adults say that they have participated in learning during the previous three years, the lowest in over two decades.[11] Access to training is also very unequal. On average, participation in training for those in lower-skilled jobs (and most at risk of automation) is 40% lower than that for high-skilled workers across all OECD countries.[12] Meanwhile, half of those in the lowest socioeconomic group in the UK have received no training since leaving school.[13]

Exhibit 1.2 Workers will need reskilling in six core areas

McKinsey's *UK Skills Mismatch* studied the number of workers who will need reskilling per skill or knowledge area. This found that workers will need reskilling in six core areas by 2030:

21 million will need basic digital skills

15 million will need leadership and management

14 million will need Interpersonal and advanced communication

5 million will need teaching and training

9 million will need STEM knowledge

16 million will need Critical thinking and information processing

*The figures from McKinsey's Skill Mismatch analysis considers skills gaps across the workforce, and therefore one individual could face multiple skill gaps.

It is clear that a large proportion of workers face a dramatic shift in their jobs due to automation, which will require additional training uptake. The changing shape of the labour market means that the workforce in 2030 will need to spend far more time on 'technological skills' and 'social and emotional skills', where human agency and decision making will be crucial to success **(Exhibit 1.2)**.[14]

The Covid-19 crisis will hit the labour market hard, but is likely to accelerate transformation

The pandemic and resulting lockdown in March 2020 hit economic activity with unprecedented speed and severity. Whole sectors of the economy were shut down; firms in the hardest hit sectors have announced thousands of redundancies; almost 9 million workers were furloughed in May 2020; and even as the economy is re-opening there remain big questions around the pace of an economic recovery, and the impact on labour market to come.

The impact of Covid-19 on the UK labour market is yet to be fully realised. Prior to the pandemic, the UK already had one of the highest rates of skills mismatches in the OECD, with 40% of workers in jobs that they are either under-qualified or over-qualified for.[15] This was the 5th worst skills mismatch among 30 countries analysed by the OECD.[16] Now there is also likely to be a significant jobs shortage, and some indicators give an early insight into how much the labour market has been hit and of the severe impact to come. Data from the ONS found the claimant count increased 117% in July compared to March 2020 reaching almost 2.7 million, as large numbers registered for Universal Credit and other jobless benefits. Similarly, PAYE data indicates that the number of employees on payroll fell by 730,000 between March and June.[17] These data, along with other indicators, point to the worrying scale of unemployment ahead, and reinforce the Bank of England's forecast that the unemployment rate could peak at 7.5% this year - the highest since 2013.[18]

Looking ahead it is unclear what trajectory the UK economy will take as both the prospect of a "second wave" of the virus and how businesses and consumers respond are highly uncertain. Consensus forecasts expect that overall UK GDP could shrink by around 10% in 2020 relative to the previous year.[19] It's clear that both the scale of the downturn seen so far, and uncertainty over the pace of recovery, will have significant implications for the labour market, particularly as the Job Retention Scheme unwinds.

Many companies have had to make difficult decisions about which employees they can afford to continue to employ and are also looking to change their work practices. Of UK firms that had not permanently stopped trading, over 50% of the workforce was working remotely in late June 2020.[20] Meanwhile, many firms will have had to speed up their pace of technology adoption during 2020 and 2021 to ensure business continuity during the pandemic: estimates from recent survey data suggest that consumers and businesses have leapt 5 years ahead in digital adoption within a space of 8 weeks.[21] This could mean that some of the jobs lost because of the pandemic will never return or that workers will have to upskill to adjust to new technologies and software.

There is a risk of high unemployment and a prolonged scarring impact on workers who have lost their jobs because of the crisis. Recent evidence suggests that workers without a university qualification are now 27-37% less likely to be in work 3 years from now.[22] Even when those who become unemployed re-enter the workforce, evidence suggests there is a time lag in workers returning to a job at the same level as they had before.[23] A recent report by the Resolution Foundation showed that increases in unemployment-related benefit claims have been greater in areas that already had higher claimant rates prior to the pandemic.[24] Further research by the Institute for Fiscal Studies found that in UK households mothers are more likely to have either left or lost their job and were more likely to have been furloughed.[25] Government and business need to work together to prevent deepening inequality with growing skills gaps and job shortages impacting the poorest people and regions the hardest..

"Overcoming barriers to investing in training is vital to unlocking the higher levels of investment that will be required over the next decade to prevent new skills gaps emerging."

Common challenges are holding back investment in adult reskilling

Businesses – rightly - place a high priority on training and development. This has long been the case. Yet while businesses are the largest investors in adult training, spending on workplace training has at best stagnated over the last decade. Several factors are holding back greater investment. Many of the biggest barriers to reskilling are rooted in a lack of direct investment, such as the current design of the Apprenticeship Levy. There are also cultural and structural barriers to greater investment in lifelong learning. Overcoming these issues will be vital to unlocking the higher levels of investment that will be required over the next decade to prevent new skills gaps emerging.

The UK needs to increase spending on adult education by 25% over the next decade…

To prevent new skill gaps from emerging in the UK, analysis conducted by the CBI and McKinsey before Covid-19 indicates that businesses, government and individuals need to spend an additional £130 billion over ten years (£13 billion a year) on adult education, a 25% increase on current expenditure.

Many of the skills gaps that are emerging are the sort that businesses are already investing to fill because of the strong business case to do so. If businesses continue to invest in training at the same rate as they do now, this could increase their investment in training by £3.6 billion per year. However, this would still leave a £9.5 billion per year gap, a figure which is now likely to be larger following the pandemic. This is partly because not all reskilling pays for the business needing to make the investment and partly because some employers under-invest in training. If there is to be a return on investment for all the required investment in training, this cannot be unlocked by businesses on their own. Government and employers need to work together to close this gap.

...but while employers remain the biggest investors in adult training, investment in workplace training has flatlined at best in the last decade and needs to increase

Good employers recognise the importance of investing in people. It has huge benefits, including raising staff retention, satisfaction, and overall productivity. For example, as the CBI report Great Job highlighted last year, firms with the highest levels of employee engagement see 22% higher profits than those with lower engagement.[26] In addition, those that develop their staff have been found to reduce turnover by up to 72%.[27] So it is no surprise that most (82%) of workplace training is funded by businesses.[28] Reskilling is a fundamental part of business development and training strategy, and most firms are strongly committed to supporting internal progression for their employees to higher-skilled roles. Leading companies are embracing a learning culture, becoming more flexible in the way they deliver training programmes and new jobs.

Yet despite its growing importance as tasks and roles change significantly, investment in workplace training has stagnated over the last decade. There has been a real terms increase in overall investment in training by employers in the last decade, rising from £43.8 billion in 2011 to £44.2 billion in 2017 – a rise of 1%.[29] However, despite this modest increase in investment, this has not kept pace with the growth in the size of the workforce in the same period. This means that annual training spend per employee has fallen by 5.6% from £1,620 in 2011 to £1,530 in 2017.[30]

SMEs, particularly small employers, struggle to invest in training and need more support

Small and medium-sized employers (SMEs) have found it difficult to invest in training. For example, 43% of micro and small businesses did not provide any training in 2018, compared to 4% of organisations with 250 or more workers.[31]

Half of the UK workforce is self-employed or works for an organisation which has fewer than 50 employees.[32] Since 2000 employment in SMEs has also grown six times faster than in large organisations.[33] Government, local leaders and larger businesses need to play a leading role in supporting SMEs to invest further in training.

Government has underinvested in adult education, with public spending on education concentrated on young people

Almost all public funding of education in England happens before the age of 25, with only around 2% going to adult learners.[34] Of the £52 billion spent per year on adult learning, £44 billion is from employers with £1.5 billion in public funding. There has also been a significant decline in investment over the last decade; between 2009/10 and 2018/19 government spending on adult learning in England (excluding apprenticeships) fell by 47%.[35]

Funding is also being dispersed with nearly half the adult education budget now devolved to seven mayoral combined authorities (MCA's) and the Greater London Authority (GLA).[36] This will be a good way for local areas to identify and respond to skills as they change, however, this could also create divisions between local areas who are able to access more money than others.

The scale of the challenge will require the government to significantly step up its support for adult learning, especially retraining, and ensure that all corners of the UK have the support they need.

Many individuals struggle to invest in training

In 2018/19 record numbers of learners – most of them young people – were undertaking a first degree.[37] However, there is evidence that the opposite trend is being seen among older learners. For example, there has been a significant decline in part-time students studying at universities over the last decade. Between 2010–11 and 2016–17, the number of people studying part-time at UK universities fell by 37%, with those students studying undergraduate courses part time falling by 47%.[38] There have also been year-on-year decreases in the number of adults aged 24 and over taking courses eligible for FE Loans over the last 5 years, with a 26% (33,900 student) drop.[39]

There is also evidence from the Social Mobility Commission that employers are more likely to invest in workers with higher skills, while better-off individuals are also more likely to fund their own training.[40] This results in widening existing skills gaps as people from working class backgrounds are less likely to have higher skills and good career progression.

There is a compelling case for increasing business investment in upskilling…

There is a strong case that employers should lead on investing in upskilling. There are several reasons for this. Firstly, an estimated 80% of the required upskilling investments will generate positive returns for the business that makes the investment.[41]

Secondly, business-led reskilling ensures the right skills are trained for the business, workers can apply those skills in real contexts, and feedback can be given to support continuous improvement. Increasing funding alone is not enough, but leading employers are already accompanying increased spending on training as part of a cohesive approach to reskilling **(Exhibit 2.1)**.

Exhibit 2.1 Employers with a bold approach to upskilling are taking five practical steps

1. Starting with the basics - mapping their skills gaps. Asking ''what are our skills gaps now, and what will they be in five years…?''
2. Providing quality on- and off- the-job training tailored to emerging skills gaps.
3. Working with providers to develop modular and shorter courses for flexible learning.
4. Building a culture of lifelong learning from top-to-bottom to give employees the confidence to train – including publicising the upskilling journey that senior members of staff have gone on.
5. Leading and supporting change within their supply chains - working with suppliers can help develop skills in your supply chain and develop next generation talent.

Thirdly, a business investing in its workforce is crucial to strengthening its reputation and demonstrating its social impact. The CBI's *Everyone's Business – Public Attitudes Report* shows that how a business is seen to treat its employees is one of the biggest influences on its public perception.[42] 69% of the public say that treating employees well is the best way to improve business reputation - for employees, this means being valued for their contribution and supported to develop and progress.[43] Business being proactive on key social issues of the day is also vital to driving public trust that the economy works for individuals.

...but retraining is a major social and economic challenge, which employers cannot tackle on their own

The return on investment of retraining is much more variable for employers. Retraining often requires a job for someone to move into at the point of transition if the investment is to pay back. Empirical evidence on redundancies and recent estimates indicate that only 25% of retraining pays back for companies.[44] This leaves nearly 4 million workers who are at risk of not being retrained over the next decade, who will have to change employers to remain employed and are likely to find that they have a skills gap when trying to find a new job.[45] This means that there is a clear case for the government to lead on investing in retraining, building on the Government's manifesto pledge to use the National Skills Fund to build towards a 'Right to Retrain' for individuals.

These shared problems raise some big questions that need answers

It is essential that government and business work together to tackle reskilling head-on. The issues discussed in this chapter raise five important challenges, which this report aims to provide solutions to:

- What are the right policies and incentives to unlock more businesses investment in training?
- How can government and larger businesses support SMEs to invest more in training?
- How can individuals be encouraged to invest more in their own learning?
- How can workers who have the largest jumps to make in their skills be properly supported to retrain?

"Policy should create the right conditions for all businesses and individuals to prioritise and increase investment in training."

A step change is needed from government and business to increase investment in reskilling

Given the scale of opportunity from getting reskilling right and the social and economic consequences of getting it wrong, business, government and providers must work together to increase investment in both upskilling and retraining. The government has a crucial role to ensure that increased investment delivers the greatest possible impact. Policy should create the right conditions for all businesses and individuals to prioritise training and increasing their investment in it.

Now is the time for action: it is essential that government and business work together to lead a step-change in approach to reskilling. The policy package below aims to provide solutions to the big questions raised by reskilling. Where possible we have estimated the cost of the policy change to government, see the Annex for details.

1. Increasing business investment in training

The Apprenticeship Levy in its current form is a barrier to increasing firms' investment in reskilling

The Apprenticeship Levy was introduced in April 2017 to increase employer investment in training. Businesses across all sectors with an annual pay bill above £3 million pay at a rate of 0.5% per month, with firms able to draw down from a company 'pot' to spend on apprenticeship training. It has had some success in stimulating new forms of innovative apprenticeship training in most sectors and at all ages.

But despite the bold ambition of the policy, the Levy has reduced the overall investment in skills by many Levy-paying businesses.[46] Its current design encourages firms to invest in apprenticeship training over other types of provision to get the largest possible return on investment for their Levy payments. In some cases, firms have even replaced their old operational training budgets with the Apprenticeship Levy. Psychologically, many firms are reluctant to invest more in other forms of training when they still have lots of 'unspent' funds showing in their digital apprenticeship accounts. Most businesses' utilisation rates of Levy funds remain low, due to the restrictive nature of how the funds can be spent.

Some companies have used Levy funds to upskill or retrain staff to good effect, often enrolling them on higher-level apprenticeship programmes.[47] However, many firms have had problems using the Levy to invest in reskilling. Apprenticeships are often not the best way to reskill workers. The length of the programmes - which must be at least a year in length - do not always fit the employer's or the learner's' needs. Higher-level apprenticeships can also take several years to complete. Many learners will only require upskilling or 'top-ups' of the gaps in their skillset, rather than an entirely new programme. Retraining somebody using an apprenticeship may duplicate much of the functional and technical skills they have gained over many years of employment.

Other types of training, such as modular, accessible programmes compatible with on-the-job learning are often more appropriate to support reskilling because they give the learner a more effective transfer of skills from training to their role.[48]

Recommendations

1. Turn the Apprenticeship Levy into a Skills and Training Levy that will support higher levels of investment in training

- Use the upcoming Comprehensive Spending Review to turn the Apprenticeship Levy into a Flexible Skills Levy that incentivises investment in a wider range of high-quality training to drive up business investment in reskilling.
- Reform the Apprenticeship Levy to ensure it is more accessible to employers, allowing firms to spend funds on a wider range of training that meets their needs and helps more individuals to update their skills, supporting career and salary progression.
- A reformed Levy should fund a wider range of accredited high-quality training including short modular courses, pre-apprenticeship programmes, product training, professional courses, and soft skills training, with qualifying training regulated by the Institute for Apprenticeships & Technical Education (IfATE) and the Office for Students (OfS).
- Commit to maintaining the rate at which firms pay the new Levy at no more than 0.5% for the duration of this Parliament, and funding SME non-Levy payers' apprenticeship training in an alternative manner, such as the use of tax credits discussed below.
- HM Treasury (HMT) and the Department for Education (DfE) should establish a performance review of the Levy system every three years to monitor the Levy's progress against an agreed set of aims. The review should should engage widely with stakeholders, including employers and providers.

2. Supporting SMEs to invest more in training

Small and medium-sized employers face unique barriers to increasing investment in training

SMEs face several challenges which prevent many of them from increasing investment in training, including a lack of scale, high fixed costs of training and a lack of capacity. It costs more to buy training due to diseconomies of scale, including the fixed cost of venues, and the cost of tailoring training.[49] A higher proportion of costs are also non-wage and fee-related, such as training management.[50] Small firms also sacrifice a larger share of workforce capacity when releasing employees for training which causes more disruptions to operations.[51] For example if one person went on training from a company of 4 people, 25% of capacity would be sacrificed.

Some local areas, particularly areas with significant devolved powers provide SMEs with free targeted support through their Growth Hubs, such as skills audits which review the business, its procedures, and help to identify skills gaps; long-term talent development plans; and connections to local providers and larger employers. However, this kind of local coverage varies across different regions, and relies on effective collaboration between the local authorities and the Local Enterprise Partnership, as well as adequate revenue and capital funding to make it work effectively.

Recommendations

1. Introduce training tax credits for SMEs to encourage more investment in training

- Introduce a training tax credit for SMEs who invest in high-quality qualifying types of training. These firms should be able to claim a relief or credit as outlined below which would act as a financial incentive to encourage SMEs to invest more in training.
- The credit could be modelled either on the existing SME R&D tax relief, or instead on the successful R&D Expenditure Credit (RDEC) (adapted and simplified to be appropriate to SME training budgets). Whilst both schemes encourage R&D activity, based on our member feedback the advantage of RDEC is that it provides both a cashflow and accounting profits impact that is an additional incentive to even greater investment. The fact that R&D tax credits stimulate R&D spending is not specific to the type of spend – and so the same logic can be applied to SME training budgets.
- Government should ensure that training which qualifies for the tax credit includes digital upskilling courses, pre-apprenticeship programmes, product training, professional courses, and soft skills training, and other forms of high-quality training regulated by IfATE and OfS.

2. Ensure local and sub-regional bodies have the resource and capacity to deliver locally targeted and co-ordinated support which provides training and workforce development support to SMEs

- Central government, including HMT, DfE, BEIS and MHCLG, working with Combined Authorities and LEPs, should ensure SME skills support is a priority within Growth Hubs. This requires long-term, flexible resourcing and robust local analytical capacity to develop and deliver SME skills support schemes which meet the needs to local businesses, and link closely with Local Industrial Strategies and recovery plans.

3. Incentivising individuals to invest in their learning

The current training landscape is complex, with provision mainly targeted at younger workers, and focused on longer courses and qualifications

The current training landscape is complex and does not support the large scale reskilling the UK requires. Provision is overwhelmingly targeted at young people and focused on longer courses and formal qualifications.

Older people do significantly less workplace training than their younger counterparts. For example, 60% of 25-34 year olds took part in some form of workplace training in 2017, compared to just 39% of 55-64 year olds.[52] Training for a new job is also rare for older workers, with just 3% of workers aged 55 to 65 and 5% of those aged 45 to 54 participated in training for a new job in 2017.[53] Meanwhile, a high proportion of the current training landscape is focused on either formal qualifications or health and safety training (57%), compared to 43% for other forms of training.[54] However, 85% of skill gaps for the future UK economy are workplace skills such as digital and leadership.[55] This means an increased offer of training through modular delivery will be key.

Recommendations

1. Introduce a Lifelong Learning Loan Allowance for individuals to stimulate demand for and interest in lifelong learning

- The government's new announcement of a flexible loan entitlement to allow courses to be taken in segments is a bold step which will improve opportunities for individuals to upskill and retrain'
- The allowance should be mainly targeted at individuals needing reskilling, who do not have a degree, and set at a value equivalent to four years of fulltime undergraduate study, the maximum funding available for individuals who take out a student loan. The allowance would encourage individuals to be price-sensitive by taking a loan for only part of their current fees and retaining some of their entitlement for potential investment in reskilling in the future.
- Government should also work closely with Higher and Further Education institutions as part of its response to the Augur Review and launch of the Further Education White Paper, to encourage and support providers to develop more bite-sized, flexible and online learning to individuals, which has many benefits **(Exhibit 3.1)**.

Exhibit 3.1 Modular, 'bitesize' learning is crucial to unlocking many barriers to the current reskilling offer

Modular learning often supports more effective skill development for workers and organisations, and has several advantages over more traditional forms of learning:

Relevance of learning: Bitesize learning allows the selection of relevant material only, saving employees and firms money and time.

Pace of learning: Many employees prefer to learn at their own pace.

Ease of learning: Breaking concepts/topics down into smaller pieces makes them easier to digest

Flexibility of timing: On-demand modules mean individuals can complete training at whatever time suits them best

Motivation, confidence and engagement: Goals are in reach with shorter, bitesize modules, which results in greater completion and engagement rates

Business case: Bitesize learning delivers almost twice the return on investment of a traditional approach through less time spent in training and a greater transfer of skills from training to the role.

Source: Mind Gym: Bitesize Revolution

2. Give all adults an entitlement to their first level 2 and 3 qualifications for free

- Participation in study for Level 2 and 3 qualification has fallen in recent years, which is concerning as these qualifications are an important stepping-stone towards Level 4 & 5 qualifications.
- Following the government's announcement of a 'lifetime skills guarantee' to give adults without an A-Level or equivalent qualification an entitlement to funding for some Level 3 course, it should work with businesses to identify the high-value courses which will give progression opportunities or offer a clear pathway to further study at Level 4 and 5.

4. Supporting individuals with the biggest retraining needs

Many individuals most at-risk of automation either do not think that their roles will be impacted by technology, lack confidence to learn or face serious issues in finding quality information on retraining

Effective learning is impossible without willing learners. The UK has historically invested in schooling and higher education, with limited through-life investment. 49% of adults from the lowest socio-economic group receiving no training at all as adults.[56]

Many individuals who are most at risk of losing their jobs due to automation do not feel that their roles will be impacted by technology. Two in three of workers (68%) in the 15 most at-risk automation occupation groups believe it is unlikely that their current job role will be automated in the next 10 years.[57] This is concerning, because it highlights the lack of awareness about the urgency of the situation.

A lack of confidence is clearly an issue for many adults. According to the Learning & Work Institute's *Adult Participation in Learning Survey 2019*, among adults who have not participated in learning within the last three years, 18% cited a lack of interest, followed by work or other time pressures (15%) and feeling too old (14%).[58] However, more than a quarter (28%) said that nothing is preventing them from taking part in learning in the next three years.[59] This highlights that it is vital to not only remove barriers to learning but also promote lifelong learning and give people the confidence to participate in it.

When individuals do choose to retrain, they face steep challenges in finding quality information on which jobs and associated training they should take up. Poor information leads to poor outcomes in education. Adults who are retraining cannot afford a mistake, yet today they have sparse information to help them to make important choices on the role they should retrain into, the course they should study and the provider they should use. The information asymmetries that plagues youth selection of training and jobs also apply to adult retraining – with training providers publishing even less performance data.

Recommendations

The Government has begun rolling out Get help to retrain, an online service for individuals across England, which is the first phase of the National Retraining Scheme. Yet with the commitment to introduce a "Right to Retrain" offer to all individuals, bigger and bolder measures will be needed. The Government should use the National Skills Fund and other new money to help individuals retrain into better jobs.

1. Turn 'Job Centres' into one-stop-shop 'Jobs and Skills Hubs' to support workers looking to retrain

- HM Treasury, the Department for Work & Pensions (DWP) and DfE should use the next three years to transform Job Centres into Jobs & Skills Hubs, to provide rapid matching of people to new job opportunities, and source high quality training opportunities in areas of future demand in the local labour market.
- The centres would harness the expertise of Combined Authorities, LEPs, Growth Hubs, Local Authorities, colleges, universities, and businesses, ensuring local resources can be directed where they are most needed.
- Individuals would be able to use these 'one-stop-shops' to access broader support, including individual skills audits, careers advice, support with digital resources and information on training and job opportunities in the local area.

2. Introduce Career Development Accounts for unemployed individuals and those with the biggest retraining needs

- Use the upcoming Comprehensive Spending Review to introduce 'Career Development Accounts' to increase learning participation and overcome financial barriers faced by learners.
- The accounts would be linked to the new Jobs & Skills Hubs, and available to unemployed individuals and those with the biggest retraining needs to spend on approved courses. Individuals would have their accounts topped-up by government up to an annual cap, with financial participation required by some individuals on a sliding scale for the total costs of training.
- Government should consult on which individuals should be targeted specifically and how the accounts should be delivered against a set of core design principles, including being performance-based, learning from international examples where similar schemes have worked effectively.

3. Create a national online learning platform

- Use the Comprehensive Spending Review to introduce an online skills portal. This portal should build on the Get help to retrain prototype being rolled out as part of the National Retraining Scheme, as well as taking learnings from the Skills Toolkit which was launched in April 2020 in reaction to the pandemic.
- The online portal should be linked to the Jobs & Skills Hubs, and contain:
    - o <u>Skills taxonomy:</u> A database which makes data on local jobs and skills trends more available so that people can find information about what skills they are going to need and what are most in-demand in their areas.
    - o <u>Skills passports</u>: Linked to Career Development Accounts, skills passports would track individuals' skills development over their working lives, these passports would contain digital skills badges, credits, and micro-credentials. This would help individuals to identify where their skills gaps lie so they can access the right training and help employers to see what skills potential employees have developed.

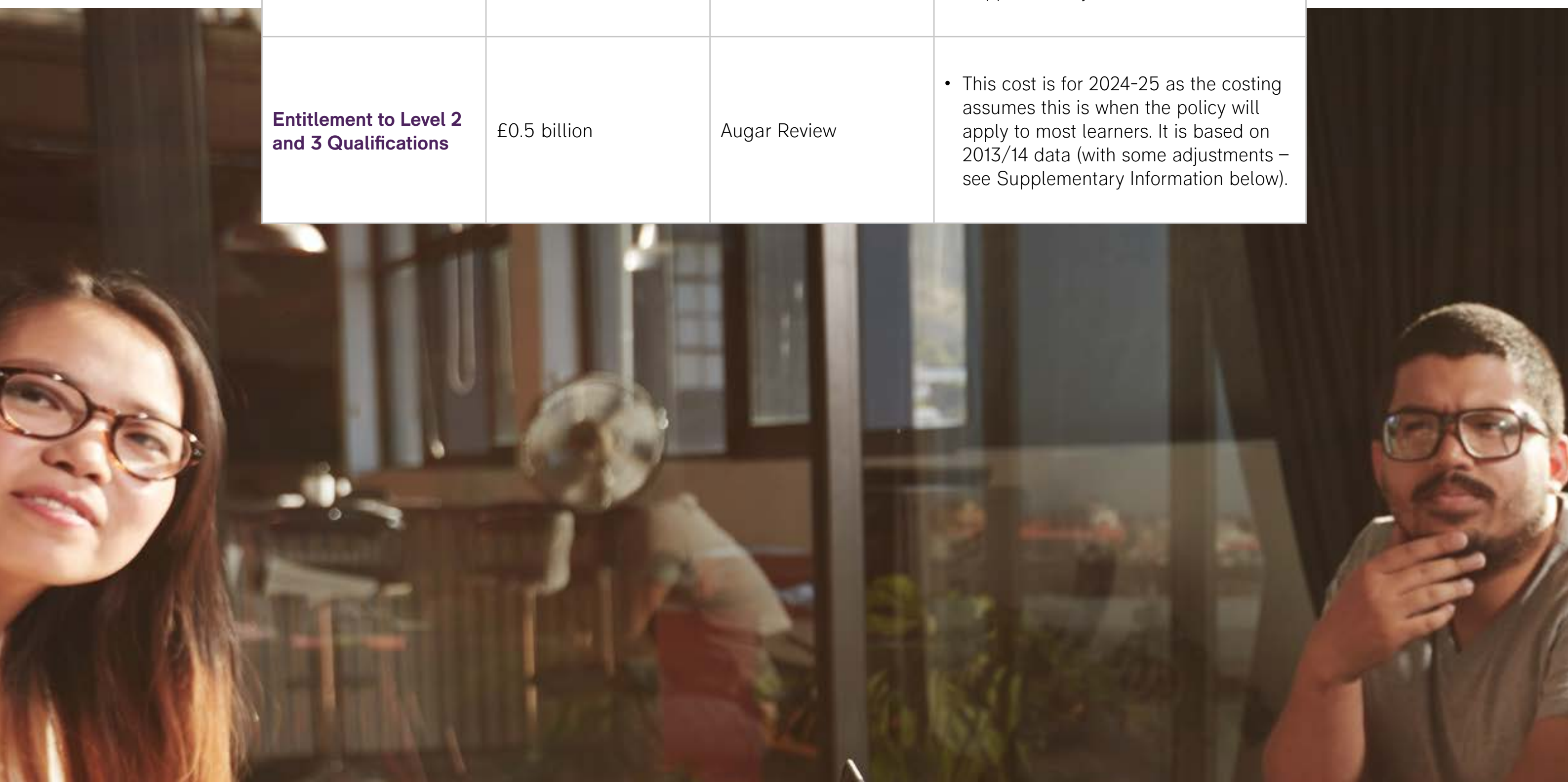
4. Create a National Reskilling Action Plan to foster a cultural change towards lifelong learning

- Government should implement a National Reskilling Action Plan, overseen by a new 'Minister for Reskilling'. The action plan should focus on delivering the Government's vision for a 'Right to Retrain', including:
    - o Working with the Governments of Scotland, Wales and Northern Ireland to make the UK a top 10 nation for reskilling and training opportunities in the World Economic Forum's Global Competitiveness Index by 2025;
    - o Establishing a roadmap for the future of adult skills, including the devolution of adult skills funding to all areas with a devolution deal in England by 2025; and
    - o Working with employers and trade unions to explore whether a 'right to time off' for reskilling should be given to employees.

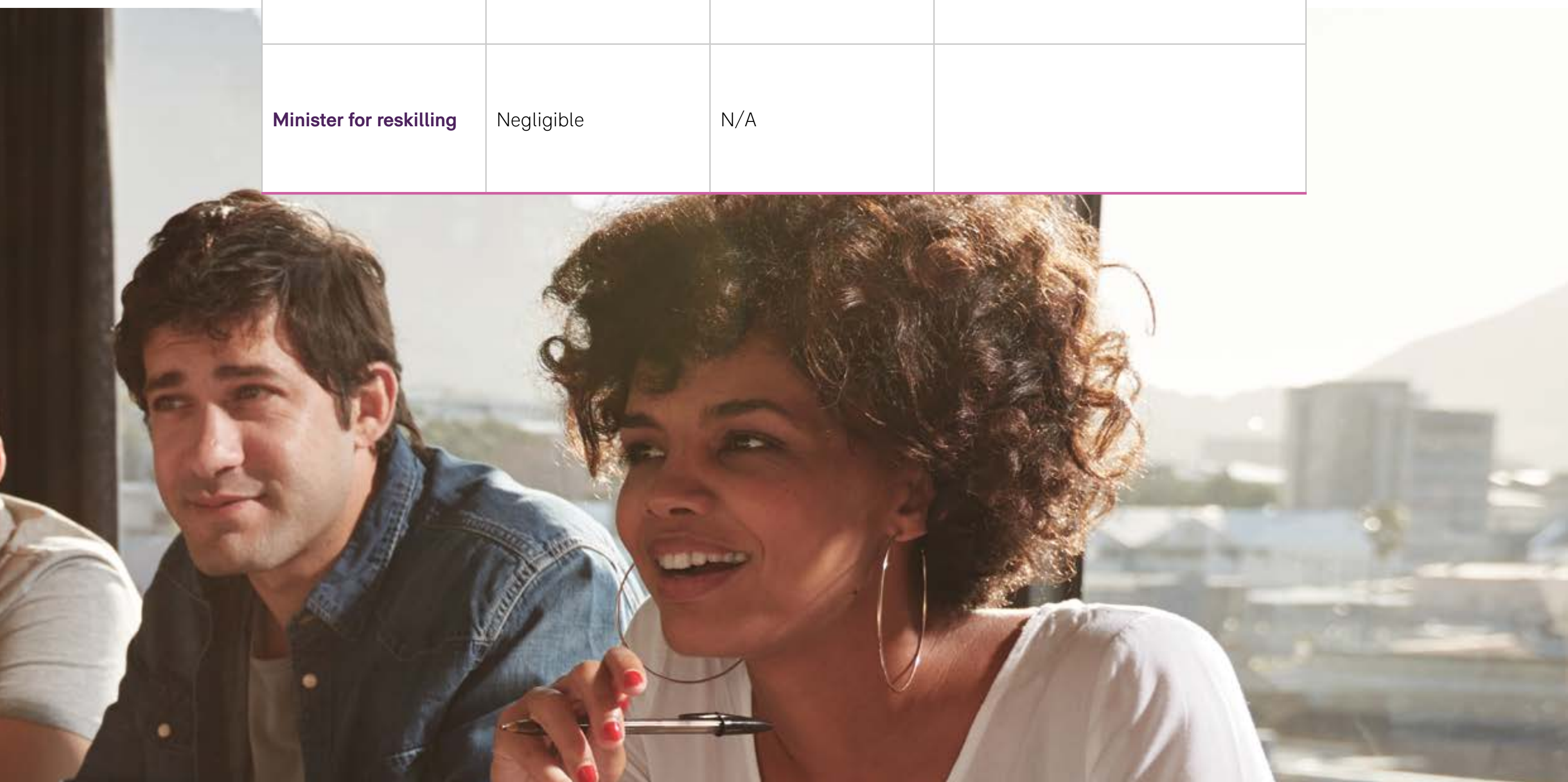
Annex: Summary of costings for recommendations

For completeness, the table below includes the costings for those recommendations the CBI has costed, as well as the recommendations that either do not have a fiscal cost or where the cost is unclear. These costings are CBI estimates.

Recommendation	Cost to the Exchequer (annual)	Source	Assumptions
Flexible Skills Levy	£0.48 billion[60]	Department for Education written questions[61]	• If Levy payers use the Flexible Levy to access 100% of funds, the cost to the exchequer would be the 95% of funding the apprenticeship budget currently funds for Non-Levy payers • This would reduce depending on how much of the Levy is accessed by Levy payers.
SME Training Tax Credit	Unclear		• The exact cost will depend on the design of the scheme
Lifelong Learning Loan Allowance	£0.3billion - 0.6 billion	Augar Review	• This cost is for 2024-25 as it the costing assumes the student finance policy is implemented in 2021/22 and then it takes a few years for the policy change to apply to the majority of students. It is based on 2013/14 data (with some adjustments – see Supplementary Information below).
Entitlement to Level 2 and 3 Qualifications	£0.5 billion	Augar Review	• This cost is for 2024-25 as the costing assumes this is when the policy will apply to most learners. It is based on 2013/14 data (with some adjustments – see Supplementary Information below).



Recommendation	Cost to the Exchequer (annual)	Source	Assumptions
Career Development Accounts	No more than £3.9 billion[62]	CBI Analysis based on analysis by McKinsey	• The programme successfully targets 500,000 people who need retraining each year based on the estimate that 5m that need retraining over 13 years • The average direct training cost of retraining one person is £7,900[63] • The absolute cost of the programme is incurred annually i.e. a person is fully retrained in a single year (which is a simplifying assumption) • Based on those that need retraining up to 2030 and therefore does not include any retraining needs in later years • This estimate is therefore a maximum as in reality some of this estimate will be funded by individuals or through other government schemes.
Growth Hubs	Unclear	N/A	• The cost will depend on how many are created, the remit and what is covered.
Skills Centres	Unclear	N/A	• The cost will depend on the remit of Skills Centres and what this will entail from an investment point of view.
Online learning platform	Negligible	N/A	
Skills passports	Negligible	N/A	
Minister for reskilling	Negligible	N/A	



Supplementary information

Level 2 and 3 grants

Cost: £0.5billion

The Augar Review estimates the cost of introducing free level 2 and Level 3 qualifications to be £0.5billion annually, based on reaching a steady state by 2024-25.[64] The programme would provide full funding for the first 'full' Level 2 qualification, for those who are 24 and over and who are employed should be restored. The current age cap would also be removed so that a first 'full' Level 3 is available free to all learners whether they are in work or not.

Assumptions in Augar Review costing

- Level 2: 80% of the number of adults who enrolled on their first Level 2 course in 2013/14 (highest enrolment years of late).
    - The 80% scalar was used to adjust the learner numbers for various reasons: for example, lower unemployment and the re-classification of first full Level 2 qualifications in 2016/17.
- Level 3: reversing the 26% fall (around 30,000 learners) in 24+ Level 3 learners caused by the switch from grant to loan in 2013.
    - Unit costs were based on DfE internal unit cost information for these levels.
    - Enrolment numbers were multiplied by unit costs to form estimates of steady state in the year 2024-25.

As the costing is based on 2013/14 data the CBI has studied the latest data to understand how the cost might change if it were to be updated now (this data can be used to caveat the costing in the report):

- The number of full level 2 and Level 3 qualifications achieved in 2011/12 has fallen.[65]
- In 2011/12, there were 216,200 learners who achieved a full level 3 qualification and in 2018/19 it was 121,500. This is a 44% drop over a 7-year period.
- The number of full level 2 qualifications achieved in 2011/12 was 546,600 and in 2018/19 it was 89,300. This was an 84% drop over a 7-year period.
- Participation for Level 3 has also fallen. In 2011/12 there were 486,800 learners and by 2018/19 it was 356,500. A fall of 27% over the same 7-year period.
- Participation in 2011/12 for Level 2 programmes was 1,028,100 and in 2018/19 and 217,800 in 2018/19. A fall of 79% over this 7-year period.

Lifelong learning allowance

Cost: £0.3billion-0.6billion

This estimation from the Augur review includes the cost of both the required additional investment and maintenance, to be used at any stage.

Some key assumptions:

- Will crowd-out privately funded programmes, but there will also be a general increase in take up. They estimate an additional 140,000. Based on data from student finance on the Advanced Learner Loan (ALL).

Since 2013/14 (the data year used in the report), enrolment on both foundation degrees and HND/HNC has been in a consistent, annual decline. In 2013/14 the number of student enrolments for a foundation degree was 51,890, but by 2017/18 this had fallen to 33,975. A 35% decline over 4 years.[66] There has also been a 15% fall in HND/HNC (both Level 4 and Level 5 qualifications) enrolments over the same period; from 16,710 to 14,270.[67]

The most recent data is from the Department for Education's Higher Technical Education 'case for change'.[68]

- Currently, young students account for only 21% of all students on higher technical courses aligned to technical routes
- Mature students make up most current higher technical students, with the average age of students being 30
- Most Level 4/5 learners are over 25 years of age (128,800 learners - 60%)
- Approximately half of Level 4/5 learners are studying part time (102,510) and 19% are taking an apprenticeship (41,700)
- Overall students comprise only 2% (111,420 students) of all qualifications awarded in FE and 3% (75,632 students) of all HE students

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About the CBI

Founded by Royal Charter in 1965, the CBI is a non-profit business organisation that speaks on behalf of 190,000 UK businesses of all sizes and from across all sectors, employing nearly 7 million people between them. That's about one third of the private workforce. This number is made up of both direct members and our trade association members. We do this because we are a confederation and both classes of membership are equally important to us.

The CBI's mission is to promote the conditions in which businesses of all sizes and sectors in the UK can compete and prosper for the benefit of all. With offices around the UK (including in Scotland, Wales and Northern Ireland) and representation in Brussels, Washington, Beijing and Delhi, the CBI communicates the British business voice around the world.

Our mandate comes from our members who have a direct say in what we do and how we do it

The CBI receives its formal mandate from 9 Regional Councils, 3 National Councils from Scotland, Wales and Northern Ireland plus 16 sector based Standing Committees. These bodies are made up of members in that region, nation or sector who serve a term of office. The chair of each Standing Committee and Regional and National Council sit on the CBI's Chairs' Committee which is ultimately responsible for setting and steering CBI policy positions.

Each quarter this formal engagement process across the CBI Council reaches over 1,000 senior business leaders across 700 of our members who have a direct say in what the CBI do and how they do it, from refreshing their workplan to discussing the key business issues of the day and re-calibrating its influence. Over 80% of the businesses represented on the CBI Council are outside of the FTSE350 as the CBI represents a wide range of sizes and sectors from the UK business community. This formal governance process is supported by a wide range of working groups, roundtables, member meeting and events that makes the CBI unparalleled at listening to and representing British business.

CBI Council in numbers

1000+

Committee and Council representatives

28+

Regional and National Council and sector based Standing Committees

50%

Representatives of the CBI Council at C-Suite level

80%

Of the CBI Council from non-FTSE 350 businesses

Product code: 12616

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