



AELP Submission: #127

AELP Submission to the Chancellor – Budget 2025

Skills for growth, hope – and to stabilise public finances

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AELP is the country's biggest membership body for training providers delivering Government funded and regulated training programmes, such as apprenticeships, bootcamps and Adult Skills Funded Programmes.

Known for our independent training provider membership base, we also have 20% of all FE Colleges, a similar number of universities and over 100 employers in our membership. The AELP Board represents all parts of our membership, and we have over 20 forums and special interest groups through which policy is discussed and evaluated. We are well placed, therefore, to speak on behalf of the whole skills system, including employers.

The government has made economic growth the central mission of this Parliament.

Compared to other investments available to the Government to boost growth – investment in big infrastructure, e.g. Heathrow, Sizewell C, planning reform, transport upgrades, trade deals, etc – investment in work-based skills programmes delivers impact that scores favourably on reliability, speed and impact. Apprenticeships in particular are widely acknowledged to be high impact productivity programmes.

Skills investment is **reliable** because employers are deeply involved and are highly motivated to ensure their investment of time and wages, with the Government investing in the skills provision, works. Employers do not tolerate non-impactful training that wastes their time, which provides in-built assurance for the taxpayer. On top of that, the Government's own assurance and inspection regimes (e.g. Ofsted) are well established and effective.

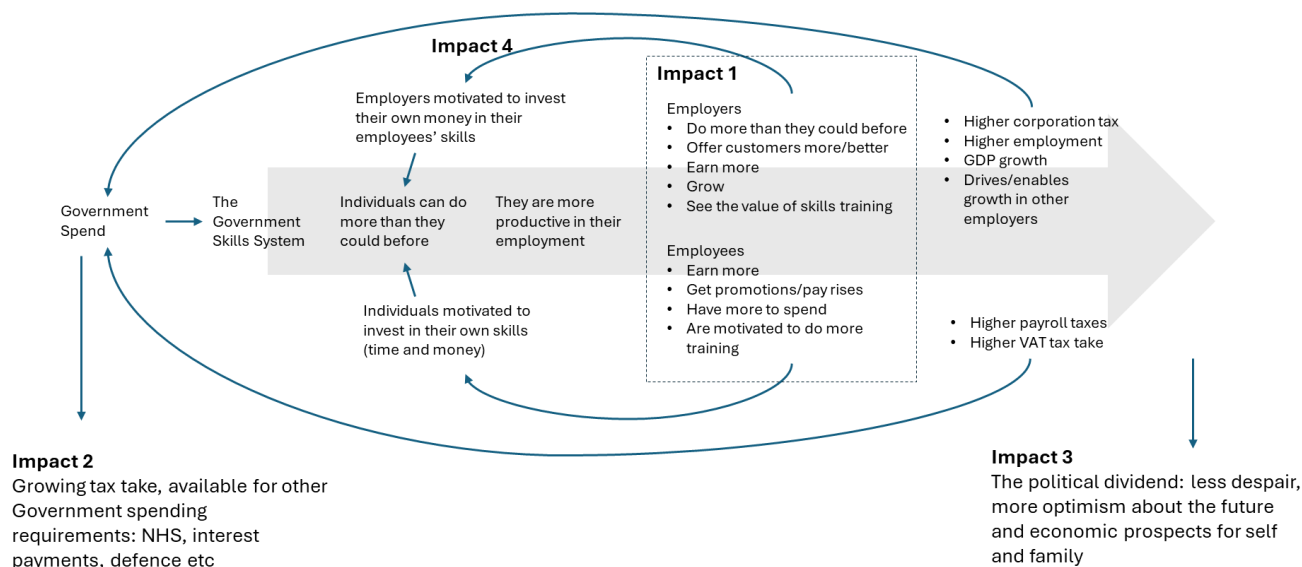
Skills investment is **quick**, because learners acquire skills that they can put into practice for their employer immediately, meaning improved employers' productivity (or reduced costs) or increasing wages, or both, on a timescale of weeks and months – not the years and decades of other investments (NB the evidence for this impact is often gathered years after the impact has happened – that should not be confused with the impact taking that long to be realised in reality).

Skills investment **impact** is high, and across multiple dimensions: there is immediate economic impact (as described above) for learners and employers; as employees and employers see the benefits from initial skills development, they are motivated to do more skills development (including privately funding it) – public investment can therefore catalyse onward private investment, creating a powerful ratchet on initial public outlays; there is benefit to the broader economy – the more skilled a workforce is, the more capable it is of upskilling still further and of withstanding shocks; there is political impact as workers (and their families and communities) across the country can see Government-funded, Government-branded programmes creating new opportunities both for the here and now and for the future.

The effectiveness of skills spending is captured in figure 1 below, with four benefits:

1. Immediate impacts on learner and employer productivity and growth
2. The 'outer flywheel' effect: productivity growth leads to greater funds for the Exchequer in the form of growing tax receipts and enhanced employment, leading to lower welfare payments; this can cover the costs of the original Government investment in skills (making it a self-funding system), and it can generate surpluses for other key expenditure
3. The political benefits of a broader section of the population looking forward more optimistically because they and/or their families and friends have more to look forward to
4. The 'inner flywheel' effect, where greater skills begets greater skills (as learners and employers are enthused by their own skills development to nurture those of others) – *this is different from other investments to drive growth: extending one airport does not extend any other airports – developing skills does directly lead to more skills*

Figure 1: The virtuous double circle for skills investment



However, the system is currently treading water (and getting tired). Employers who already use the skills system are and will continue to use the skills system. But that is not nearly enough for the Government to get what it needs in terms of productivity, growth and decrease in numbers of NEETs and inactive adults. The Government needs employers already using the system to increase their use of it. And the Government needs employers not yet using the system (and there are many more of them than those who currently do) to engage and then to do so more and more each year.

The new Government target, the move of skills from DfE to DWP and the incoming changes to the Growth & Skills Levy are necessary – but they are not sufficient to make the changes the Government wants.

This AELP budget submission shows how the Government can break from the current impasse and create the conditions in which the virtuous cycle of skills -> productivity/growth -> lower welfare/higher taxes can start to turn.

Critical to the Government achieving this is to give employers reasons to 'lean in' to the skills system, to feel that this is a system that is 'for' them and where they will be minded to invest more of their own resources (in time if not immediately). Certainly, the Government has to minimise any sentiment amongst employers that they are being taken for granted and/or expected to do new or more things while the Government is taking things away from them – this sense of resentment will set the Government back across all its labour market objectives.

The bulk of what we propose can be funded by what we are proposing as our first recommendation, to allow those apprenticeship levy receipts currently retained by HMT as a 'top-slice' to flow into the apprenticeship system as additional funding, which would also have an outsize positive impact in bringing employers back into the system.

Apprenticeship Levy receipts continue to grow (they are projected to reach £4.7 billion by 2029¹) but the apprenticeship programme budget has not kept pace, creating a persistent mismatch. Meanwhile, underspends in adult skills budgets reveal inefficiencies in the system, with funding locked in institutions rather than following learners.

AELP's Baker's Dozen of recommendations:

- 1. Increase the DWP's apprenticeship programme budget in line with the levy paid by employers to facilitate funding non-apprenticeship flexibilities as part of the commitment to reform the levy and system.**
- 2. Annually increase all apprenticeship funding bands in line with inflation and evolve the current approach for allocating funding bands, which is too slow and doesn't recognise all appropriate delivery costs.**
- 3. Introduce a ringfenced budget to ensure certainty of funding for non-levy paying employers.**
- 4. Provide incentive payments specifically to providers for apprenticeship starts with SMEs**
- 5. Support more young people into apprenticeships through expanded foundation apprenticeship opportunities, removing English and Maths as an exit requirement for apprentices aged 16-18, and introducing an incentive for employers to take on new apprentices under the age of 25.**
- 6. Introduce a sufficiently broad set of short courses before bringing in any limits on eligibility for full funding for any full apprenticeships**
- 7. Design and launch an integrated process to get people out of unemployment/ inactivity into work AND then into upskilling and progression, ensuring as seamless a handover as possible between Jobcentre Plus and National Careers Service teams and training providers (upskilling of existing staff will be required)**
- 8. Establish clear accounting mechanisms to accurately measure returns on skills investment.**
- 9. Double the Adult Skills Fund (ASF)**
- 10. Allow learners of 16-19 study programmes to choose their place of study and not be artificially restricted by allocations and arbitrary growth caps.**

¹ https://obr.uk/docs/dlm_uploads/OBR_Economic_and_fiscal_outlook_Oct_2024.pdf

- 11. Capital investment budgets for further education providers should be open to all providers of further education, allowing apprenticeship delivery to reflect industry standards.**
- 12. Introduce individual learning accounts**
- 13. Scrap targeted sector skills packages and divert the money into existing programmes**

Invest in – and reform – apprenticeships

Apprenticeships are the most direct route from training to productivity, as they raise wages, improve retention, and provide employers with the skilled personnel they need in every part of the economy, from green energy and construction to healthcare, retail, and technology. They offer young people a paid start and help adults retrain for better jobs, all while delivering clear returns to the Treasury through higher growth and lower welfare costs. Yet the programme is held back by a mismatch in the levy raised and budget allocated, static funding bands, and too few SMEs accessing the programme. This section outlines a practical plan to unlock the full potential of apprenticeships by aligning funding with levy receipts, protecting routes for smaller employers, strengthening incentives for under-25s, and expanding flexible entry and progression paths, such as foundation apprenticeships and short courses.

Recommendation 1 – Increase the DWP’s apprenticeship programme budget in line with the levy paid by employers to facilitate funding non-apprenticeship flexibilities as part of the commitment to reform the levy and system.

One of the key drivers for high-quality skills investment in the UK is the Apprenticeship Levy. This raised £3.84bn in 2023/24², a figure that is estimated to be £4.00bn in 2024/25 and rise to £4.70bn by 2029/30 according to the Office for Budget Responsibility³. Meanwhile, the apprenticeship budget is £3.075 billion for the 2025/26⁴. However, the number of apprentices taken on by younger people and at lower levels⁵ is concerning.

Despite this, the apprenticeship programme budget has been largely spent over the last three years, with the percentage returned to the Treasury standing at 0.4% in 2021/22, 4% in 2022/23 and 2.3% in 2023/24.⁶

There is little transparency about how much is distributed to the devolved nations through the Barnett formula and move to a block grant settlement, but it has been estimated at around £680m. This means the Treasury is top-slicing c£800m from the Apprenticeship Levy. This is money raised for skills, not being spent on skills.

² <https://www.gov.uk/government/statistics/hmrc-tax-and-nics-receipts-for-the-uk>

³ https://obr.uk/docs/dlm_uploads/OBR_Economic_and_fiscal_outlook_Oct_2024.pdf

⁴ <https://questions-statements.parliament.uk/written-statements/detail/2025-06-02/hcws672>

⁵ <https://explore-education-statistics.service.gov.uk/find-statistics/apprenticeships/2024-25>

⁶ <https://feweek.co.uk/dfeset-to-surrender-60m-apprenticeship-cash-in-2023-24/#:~:text=Over%20the%20last%20two%20years,offer%2C%20how%20many%20and%20when.>

Meanwhile, the government is introducing some flexibility around what training can be funded through this budget, starting with foundation apprenticeships in August 2025 and short courses from April 2026. While restrictions on eligibility (as with Level 7 apprenticeships) may eventually save some money, it is unlikely to be enough to fund the additional programmes the Government needs to fund, especially if it is to do so in a way that does not turn employers away from engaging with the skills system as a whole.

The demand for apprenticeships from learners and employers is there, evidenced by the fact that the budget is being spent year on year and will likely be overspent at the current rate, even before further flexibilities are introduced.

Therefore, to help fund further investment in apprenticeships, AELP calls on the Treasury to increase the apprenticeship programme budget to align it with levy receipts. The government should have the ambition to increase the budget, by the end of this parliament, to more accurately reflect levy take, ensuring businesses get the skills they are paying for. Without this additional investment, there will be extremely limited capacity to expand the Growth and Skills Offer, and reviews of apprenticeship standards will continue to be delayed — meaning that even popular standards in high demand from employers are held back by budgetary pressures.

Recommendation 2 – Annually increase all apprenticeship funding bands in line with inflation and evolve the current approach for allocating funding bands, which is too slow and doesn’t recognise all appropriate delivery costs.

The funding bands process for apprenticeship standards is becoming a barrier to delivering some apprenticeships in key sectors. Not only are funding band reviews too slow, but they also fail to recognise that major delivery costs have increased, and as the bands themselves are static, this is leading to a slow erosion of funding due to inflation. In some cases, training providers no longer offer provision due to a lack of viability. Employer demand needs supply to achieve its outcome. This can be evidenced partly by the lack of utilisation of a significant number of approved apprenticeship standards, which have had zero starts.

There are 30 funding bands that an apprenticeship standard can sit on, with a maximum funding of £27,000. These funding bands are static and do not move with inflation, despite delivery costs increasing year by year.

This results in key apprenticeship standards, such as the Installation and Maintenance Electrician Apprenticeship, being delivered at a loss or cross-subsidised from elsewhere. This standard has been recognised with the Coronation Emblem as one of the six gold-standard green apprenticeships. Funding apprenticeship standards in line with inflation will *deliver economic growth, break down barriers to opportunity and make Britain a clean energy superpower.*

Based on a £3bn apprenticeship programme budget, and CPI running at 3.8%, this would cost approximately £114m in 2025/26. As wages rise, more and more levy payers are being lifted into paying the levy, and levy receipts are rising. The levy itself has risen from £2.7bn in 2019/20 to

£3.9bn in 2024/25 and is predicted to rise to £4.6bn by 2028/29, according to the OBR⁷. Therefore, the mechanism to pay for the funding bands increases to keep pace with inflation is already in place.

Crucially, what is needed is certainty – the uncertainty of whether a funding band will be reviewed at all, and what the outcome of that will be, itself creates huge friction for providers and with employers. Creating certainty would bring significant benefits for providers and for employers.

Further, anything mandated by the apprenticeship funding rules should be included in the funding bands. The following is a list of costs not recognised in apprenticeship funding bands:

- British values, Safeguarding and Prevent
- VAT on consumables
- Capital costs
- Pastoral support
- Overhead costs
- Enrolment and recruitment costs

Including these costs in the funding bands would free up resources for front-line skills delivery.

Recommendation 3 – Introduce a ringfenced budget to ensure certainty of funding for non-apprenticeship levy-paying employers.

The apprenticeship system was designed so that levy-paying employers did not use all their levy funds. Any funds not spent after 24 months are first made available for non-levy paying employers before being returned to the Treasury. The government plans to introduce flexibility into the apprenticeship system, allowing levy payers to use more of their levy funds, which, assuming the budget remains the same, will result in a decrease in funding available for non-levy payers.

However, only c2% of employers pay the apprenticeship levy.⁸ This means the other 98% of employers have no guaranteed access to apprenticeship funding and are likely to see their ability to access apprenticeship funding decrease significantly if levy payers use more of their levy funds.

With 98% of the apprenticeship budget being spent over the last three financial years, there is limited headroom in the budget. Skills shortages and ensuring that an organisation's skills needs are met are just as critical for non-levy payers as for levy payers. A Federation of Small Businesses report from 2022 showed that 78% of small businesses experienced difficulties in recruiting staff, with 82% of those citing a lack of skills as a reason.⁹ SMEs are the backbone of the economy, present in every community in the UK, and proportionally employ more young people than larger employers.

AELP recommends introducing a ringfenced apprenticeship budget for non-levy payers, ensuring that all businesses across England have access to apprenticeships and the benefits they bring to businesses. Alongside this, government should provide better, practical support for SMEs by funding

⁷ <https://obr.uk/efo/economic-and-fiscal-outlook-march-2024/>

⁸ <https://educationhub.blog.gov.uk/2023/03/10/how-are-apprenticeships-funded-and-what-is-the-apprenticeship-levy/>

⁹ <https://www.fsb.org.uk/resource-report/scaling-up-skills.html>

local and sectoral apprenticeship hubs to guide smaller employers through the system — from identifying the right standards to managing digital accounts and navigating compliance requirements. This would make apprenticeships more accessible, cut bureaucracy for small firms, and help them focus on developing talent.

Recommendation 4 – Provide incentive payments specifically to providers for apprenticeship starts with SMEs

SMEs that do not pay the levy are the engine of the economy, employing 60% of all employees. The skills system cannot deliver the productivity, growth and opportunity uplift we need if it is only working with 40% of the economy. Non-levy paying SMEs are also more likely to be found outside of London and the South East and major urban areas, which means that there is an important geographic dimension to supporting them.

Historically, SMEs have also been more willing to take on young people than larger businesses, including those who do not have good school grades, partly because they know they have less choice and resources to do sophisticated recruitment campaigns and processes, partly because they know they will be more directly working with the young person (i.e. they can influence and shape them directly) and partly because they may be minded to give a break to a local young person.

However, without payment of a levy to incentivise them and with few resources to navigate an inevitably complicated system, it is vital that there are people available to hold their hands through the process. The organisation type that is already working across the country, who already have significant expertise and are there to see SMEs through from initial interest through to successful completion are training providers. However, it is expensive and risky for training providers to commit time, energy and resources to servicing SMEs, precisely because they are often geographically spread out, may only take on very small numbers of apprentices and are liable to change their mind and make last minute changes to the timetable. For many providers, they would risk their entire viability (especially as funding has been so tight for other reasons, funding band freezes etc) if they put too much resource into servicing SMEs in this way.

Government should therefore tilt the balance towards training providers and make it reasonable for them to increase their efforts to engage and service SMEs by giving an incentive (paid in instalments) to training providers for every apprenticeship they deliver in a non-levy paying SME.

Recommendation 5 – Support more young people into apprenticeships through expanded foundation apprenticeship opportunities, removing English and Maths as an exit requirement for apprentices aged 16-18, and introducing an incentive for employers to take on new apprentices under the age of 25

According to The Learning and Work Institute, there are 2.79 million 24–65-year-olds without qualifications and 6.26 million 24–65-year-olds with qualifications below level 2¹⁰. Meanwhile, the UK is 29th of 36 OECD countries for medium-level qualifications, from level 3 through to 5. The

¹⁰ <https://learningandwork.org.uk/resources/research-and-reports/the-great-skills-divide-how-learning-inequalities-risk-holding-the-uk-back/>

government needs to make the skills system more attractive for employers, to take on lower-level learners and convert them into apprenticeships.

Apprenticeship rules can be too rigid, especially for SMEs and adults who need shorter, targeted interventions. Foundation apprenticeships are starting to provide an eight-month, entry-level pathway in seven areas, but should be expanded to include everyday economy sectors such as retail and hospitality. This would support young people and SMEs, especially those furthest from the labour market.

Alongside this, a mid-career apprenticeship – short courses – should enable adults to retrain, upskill or reskill flexibly, responding to structural shifts in the economy. With nearly 2.8 million adults lacking qualifications and the UK ranking 29th of 36 OECD countries for medium-level qualifications, this is an urgent priority¹¹. Together, these pathways could grow participation, improve completion rates, and enhance social mobility.

The government should also explore how to get greater value for money from the current apprenticeship budget. If a learner completes a foundation apprenticeship before moving on to a full apprenticeship, the foundation apprenticeship should be recognised as prior learning, reducing the time needed to complete the full apprenticeship.

More needs to be done to encourage employers to take on apprentices. AELP was at the forefront of the campaign to remove Functional Skills qualifications as an exit requirement for apprenticeships because the rule blocked competent apprentices from completing, depressed starts (especially among SMEs and young people without GCSEs), and created a barrier that does not exist in other routes.

Our evidence showed that a gatekeeping exam late in the programme distorted behaviour and value for money. The government has now removed the requirement for adults aged 19+, which we welcome. The next step should be to extend this reform to 16–18s with safeguards: universal diagnostics at the start, clear on-programme support plans, sensible progression milestones, and accountability through existing data and inspection, rather than a single hurdle.

AELP also supports a targeted incentive for employers who take on new apprentices under 25. Early-career opportunities generate the largest lifetime gains and help tackle the NEETs challenge; however, for many SMEs, the first 6–12 months carry the highest costs, with supervision, off-the-job training and lower initial productivity. Learning from the Kickstart scheme, a simple grant paid in stages – which could be used by employers to subsidise wage costs – would de-risk recruitment. The government should also continue to promote the National Insurance Contributions (NICs) rebate for apprentices, highlighting how employers can use it to offset costs. It remains one of the sector's 'best kept secrets', and a targeted campaign to raise awareness would be valuable.¹² The government should also consider additional tax credits. And the Government should certainly package all these financial benefits and incentives together and promote them to employers as part

¹¹ <https://learningandwork.org.uk/wp-content/uploads/2024/05/The-great-skills-divide-Ambition-skills-May-2024.pdf>

¹² <https://questions-statements.parliament.uk/written-questions/detail/2025-09-17/hl10668>

of promoting the overall benefits of engaging in skills development programmes in partnership with the Government.

Recommendation 6 – Introduce a sufficiently broad set of short courses before bringing in any limits on eligibility for full funding for any full apprenticeships

Short Courses are designed to give employers a product that is suitable for mid-career employees, who currently have to commit to a long and expensive full apprenticeship if they are to benefit from the levy. Short Courses will be, per learner trained, less expensive than a full apprenticeship and, because they are targeted at particular skillsets (made up of knowledge, skills and behaviours drawn from existing apprenticeship standards) as opposed to a general, occupation-wide set of skillsets, will be likely to deliver high economic and productivity gains. They will be welcomed by employers and seen as the Government holding true to its stated intent to bring in more flexibility. This goodwill in turn will be important in introducing other changes to the Growth & Skills Levy system, including prioritisation of where employers can use their funding.

If any prioritisation of how funding can be used happens before a sufficient number of Short Courses are in place, then Government runs the serious risk of losing any of the goodwill benefits from introducing them, because employers will feel that their options have been curtailed, not enhanced.

We therefore strongly recommend that any prioritisation of what is eligible for full Growth & Skills Levy funding is done in tandem with the introduction of Short Courses, and communicated as part of the same package.

We would be delighted to spend time with Treasury and Departmental officials to explore what this prioritisation could look like, what selection of Short Courses would satisfy employers and how the DAS could be used to make take up of Short Courses contingent on the offer of full apprenticeships in target areas.

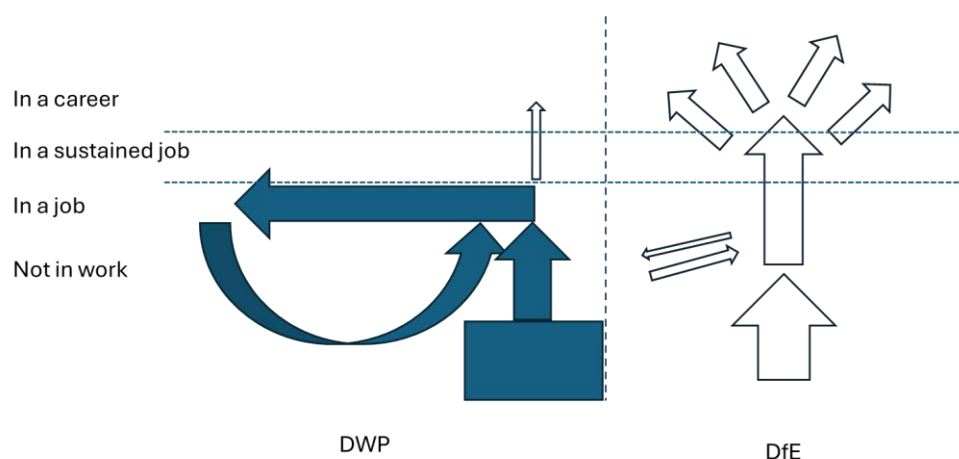
Make the most of the machinery of government changes

Recommendation 7 – Design and launch an integrated process to get people out of unemployment/ inactivity into work AND then into upskilling and progression, ensuring as seamless a handover as possible between Jobcentre Plus and National Careers Service teams and training providers (upskilling of existing staff will be required)

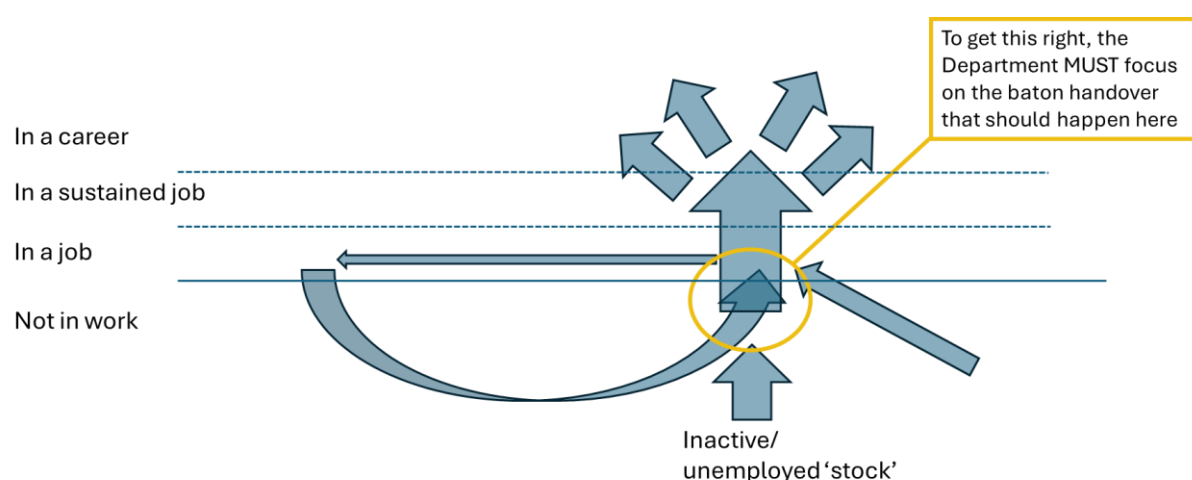
There is a huge opportunity from the move of skills and apprenticeships into DWP – but only if the Department takes steps to ensure the integration that could deliver such huge benefits for millions of people, employers and the economy.

Until now, the DWP has been primarily focused on getting people out of unemployment and inactivity, and not worrying too much about each person's trajectory thereafter (recent emphasis on getting people into a good quality job does not change this: the focus is still on the immediate job the person moves into, not what happens thereafter).

The risk is that the DWP 'model' sits alongside the skills model imported from DfE, but without integrating:



The prize is if the DWP can integrate the two models:



This will require a full end-to-end design of the different flows through the system, and significant training for Jobcentre Plus and National Careers Service staff so they can give accurate and practical advice on skills pathways (Skills Bootcamps, Foundation Apprenticeships, full Apprenticeships, etc). The recent Work and Pensions Committee report, *Get Britain Working: Creating a new jobs and careers service*¹³ underlined the importance of high-quality careers advice, finding that each pound spent on guidance for unemployed adults delivers a return of £3.20¹⁴. We urge the Treasury to recognise this value and ensure that careers services are properly resourced and integrated with skills and employment support so that people can be guided towards apprenticeships and training routes that deliver the strongest outcomes.

Recommendation 8: Establish a clear accounting mechanism to accurately measure returns on skills investment.

The government should also establish clear accounting mechanisms to evidence the fiscal benefits of moving people from welfare into sustainable work through training. Better, independent, data-linked evaluation of the fiscal and productivity returns from skills investment so decisions at future Budgets and Spending Reviews are grounded in robust evidence.

¹³ <https://committees.parliament.uk/publications/49390/documents/263299/default/>

¹⁴ https://www.thecd.net/CDI/media/Write/CDPG/91271-Investing-in-Careers-Report-Final2_edit.pdf

Finally, DWP's proven ability to engage large, lower-wage employers should be harnessed alongside the FE sector's strong relationships with higher-skilled industries, creating a more coordinated and effective employer engagement strategy across the economy.

With the welfare budget (minus pensions) set to increase to £195 billion by 2029/30, the government should view skills investment as a strong investment to get people into high-quality, well-paid, sustainable employment. Furthermore, against a backdrop of weak economic growth and a tight public spending envelope, skills investment offers the government a way out of the economic "doom loop": it is low-cost compared with other levers, politically popular across the electorate, and delivers rapid, proven returns. Apprenticeships and training boost growth, widen opportunity, and restore confidence, yet the system remains constrained by fragmented evidence, clunky rules and underfunding. By consolidating the case for skills, reforming processes to work better for learners and providers, and setting out a long-term funding plan that unlocks levy underspends, the Chancellor can show seriousness of intent, reassure markets, and put skills at the heart of a credible strategy for growth.

UK employers report that over a third of UK vacancies in 2022 were due to skills shortages, a number that is growing¹⁵. This represents a significant barrier to economic growth, not only through reduced productivity, but also in making the UK less attractive for investors. Closing this skills gap is key to economic growth and the Budget offers a moment to align skills funding with the government's growth strategy.

Support for learning and training throughout people's lives

Investing in skills at the start of a career and renewing those skills throughout working life is one of the highest-return choices government and employers can make. It is also central to tackling the NEETs crisis. Early, targeted investment can give disengaged young people a supported route into the labour market and prevent long-term scarring. Expanding the Youth Guarantee to cover 16-24 and broadening out eligibility criteria would provide much-needed support.

Ongoing training keeps people productive as technologies and business models change, helping firms adopt innovation faster, cut vacancy and turnover costs, and lift output per worker. For the public finances, it is an invest-to-save approach, as higher earnings raise tax receipts and better progression reduces welfare spending. Although apprenticeships are the bedrock of our post-16 education system, investment must also be made elsewhere. A coherent, lifelong offer that blends apprenticeships, modular learning, bootcamps and targeted upskilling enables people to step in, step up and switch careers, supporting growth, net zero delivery and resilience in every region.

Recommendation 9 – Double the Adult Skills Fund

The government has set an ambitious target of reaching an 80% employment rate. This will require continued training and upskilling throughout people's lives as the labour market develops around

¹⁵ https://assets.publishing.service.gov.uk/media/66ffd4fce84ae1fd8592ee37/Skills_England_Report.pdf

them. However, the IFS¹⁶ reports that public funding for adult skills has fallen substantially from its early-2000s peak. In 2023–24, it was £4.3bn, down a third from an inflation-adjusted £6.3bn in 2003–04, with the steepest cuts in classroom-based learning, which has dropped by roughly two-thirds to £1.7bn. Participation in classroom courses has also shrunk, from 5.6 million publicly funded qualifications in 2004–05 to 2.3 million in 2023–24. Increasing funding would help reverse this decline, but the government should also consider what support can be offered to individuals to offset the indirect costs of reskilling later in life.

Even with a boost to funding, delivering an ambitious 80% employment rate will require extracting the maximum value for money from every pound of adult skills and employability programmes. The current mostly grant-allocated adult skills funding contracts, whether they are devolved or non-devolved, lack transparency and in terms of measuring performance, do not result in adequate accountability. Furthermore, they do not have a big enough focus on job outcomes for learners. The purpose of the Adult Skills Fund (ASF) is to support adult learners to gain skills which will lead them to meaningful, sustained, and relevant employment. Over the last four years, the government has budgeted £2.65bn for non-devolved ASF.

AELP recommends that the government evolve the wider adult education system towards a more learner-led rather than institutionally based approach, where the funding follows the learner. This would empower and prioritise the learners, rather than the providers.

Recommendation 10 – Allow learners of 16-19 study programmes to choose their place of study, and not be artificially restricted by allocations and arbitrary growth caps.

The latest Office for National Statistics figure for the number of young NEETs (not in education, employment or training) is 948,000¹⁷. Research by PWC and Youth Futures Foundation estimated that UK GDP could benefit by £38bn by lowering levels of young people classed as NEET to levels of comparable countries¹⁸. There are several causes behind the high number of NEETs, and several solutions for reducing the number.

One solution is to address the growth cap on 16-19 Study Programmes that prohibit independent training providers from meeting the demands of students. Independent training providers currently deliver c£200m of 16-19 study programmes. They also disproportionately support 16-19-year-olds who are not accepted at other institutions due to low levels of attainment and/or behavioural issues. However, they are limited in the number of students they can enrol based on allocations and arbitrary growth caps. This means that potential learners miss out on the opportunities they need in a provision setting that works for them.

¹⁶ <https://ifs.org.uk/education-spending/adult-education-and-skills>

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<https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/unemployment/bulletins/youngpeoplenotineducationemploymentortrainingneet/august2025>

¹⁸ <https://youthfuturesfoundation.org/wp-content/uploads/2022/04/PwC-Youth-Futures-Foundation-Youth-Employment-Index-2022.pdf>

NEET programmes are often reactive and call for funding to be used in a non-traditional way. If providers had the freedom to utilise a proportion of their allocation to deliver employer-informed, employment skills focussed skills and competency-based programmes without the need to fulfil specific delivery hours to qualify for different amounts of funding. Similarly, the effective use of national, regional and local post-16 education engagement data could drive funding to providers to deliver the much-needed capacity above and beyond the current arbitrary growth cap.

At a time when the number of young NEETs is so high, and the economic potential of reducing this number is so great, the growth cap should be lifted. The growth cap is a clear barrier to opportunity that needs to be taken away. Further, the funding model should follow the learner, allowing learners to choose their place of study, particularly for 16–18-year-olds, where there is a legal entitlement to access study. However, the Government should work with local and devolved authorities to identify ways that capital can be provided to help ITPs in furnishing spaces as an alternative to renting or building capacity where there are short to medium-term capacity issues.

Recommendation 11 – Capital investment budgets for further education providers should be open to all providers of further education, allowing apprenticeship delivery to reflect industry standards.

Whereas other types of institutions can access government-backed schemes, independent training providers only access to capital funding is through private means. This is even though some of the priority sectors, such as manufacturing and construction, are capital-intensive; therefore, skills providers have to divert funds from skills delivery to acquire the needed equipment. Meanwhile, DfE runs a £2.8 billion capital investment programme for colleges.

All capital investment programmes for the further education sector should be open to all providers to ensure learners and apprentices in England have access to the latest industry-standard equipment, and that providers can focus resources on frontline delivery. This small change to eligibility would transform skills and apprenticeship delivery in growth sectors such as advanced manufacturing, engineering and clean energy sectors.

The unprecedented population bulge making its way through the whole education system is beginning to add strain to the post-16 sector. Without additional investment in facilities and resources to meet the increased demand it is possible that a serious challenge to economic growth and employment rates will be evident. Many young people engage with ITPs as their estates are smaller and offer a different type of experience from a large college. However, with many ITPs operating as charities and community investment companies, finances are tight, and surpluses are rare. Extending funding to improve facilities and increase capacity across the whole sector can only support the fundamental development of skills. Where investment is focused on resources and infrastructure, the risk is low, but the returns are long-term and strengthen the system's ability to respond to medium-term pressures through sustainable capacity growth.

Recommendation 12 – Introduce individual learning accounts

The current supply-led system does not reliably match training to real employer demand or learner need. Individual Learning Accounts would put purchasing power in the hands of learners, creating a genuine culture of lifelong learning and allowing people to top up skills at key moments: entry to work, progression, career change, and return to work. International models such as Singapore's SkillsFuture show that well-designed, digital accounts can be targeted at priority sectors, stimulate employer co-investment and raise participation among adults who are least likely to train.

Every eligible adult could receive a digital skills wallet with a baseline annual credit that can be accumulated and spent on approved, modular provision at Levels 2–5, including short courses that stack towards full qualifications. Government would set a clear national offer and quality bar with a single approved register of providers and courses, while Combined Authorities and sectors could add local or sectoral top-ups aligned to national priorities without creating fragmentation.

This would effectively expand the plans for LLE to level 2, expanding the approach of modularised learning and giving ownership to individuals and encouraging development and growth and would, in time, change the culture and perception of continuous education and learning at all ages. This could be co-funded by the government, employers, and individuals.

Recommendation 13 – Scrap targeted sector skills packages and divert the money into existing programmes

AELP believes that ring-fenced sector packages are an inefficient use of limited public resources. With additional Technical Excellence Colleges, each with its own hub-and-spoke model, overall funding pots will shrink due to management fees and other overheads, leaving less funding available for learners.

Instead of creating new, targeted schemes – such as funding for technical excellence colleges or sector-specific jobs portals – the government should divert this investment into strengthening and expanding existing, proven programmes, for example, through funding band uplifts or the offering of new short courses as part of the Growth and Skills Offer.

Current provision already has the reach, expertise and employer engagement to respond flexibly to sectoral priorities without the need for new, siloed initiatives. Redirecting funds into established programmes would avoid duplication, reduce administrative complexity, and ensure that providers can deliver at scale across all parts of the economy, including those priority sectors.

Taken together, these recommendations set out a programme for unlocking capacity in the skills system, putting learners at the heart of decision-making, and ensuring providers have the resources to deliver to the highest standards.

Unlocking talent, boosting business, stabilising public finances

The UK cannot afford to underinvest in skills. Every unfilled vacancy reduces productivity, deters investment, and weakens growth. Every NEET young person represents a loss of potential and a future fiscal burden. Those upskilling and moving upwards from an entry-level job leave behind roles for new entrants to the labour market.

The Autumn Budget should back a coherent, evidence-led system that moves people swiftly into good work and helps them progress. That means aligning the apprenticeship budget with levy income, updating funding bands with inflation, and guaranteeing access for SMEs through a ringfenced pot. It also means expanding practical entry and progression routes, including foundation and mid-career apprenticeships, removing unnecessary barriers for 16–18s, and introducing a targeted incentive for employers to take on under-25s who are currently NEET. With DWP now leading on skills, Jobcentre Plus and the National Careers Service staff must be upskilled, and robust accounting should capture the fiscal returns from training so decisions are anchored in results.

At the same time, the system must become more learner-led and investment-ready. Capital funding should be open to all providers so delivery keeps pace with demand and standards, the Adult Skills Fund should be doubled, and individual learning accounts piloted to unlock lifelong learning. Lifting 16–19 growth caps and letting funding follow the learner will widen access and tackle NEET levels where they are highest. The government should avoid new siloed schemes and channel resources through proven programmes that already reach employers at scale. Taken together, these steps would put skills at the centre of an invest-to-grow strategy, boosting employment, productivity and opportunity while strengthening the public finances.

Higher employment, stronger productivity, improved social mobility, and greater fiscal resilience: the UK's growth plan will stand or fall on skills.

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