INDUSTRIAL STRATEGY ADVISORY COUNCIL

Industrial Strategy Advisory Council: Increasing employer investment in skills

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About the Industrial Strategy Advisory Council

The Industrial Strategy Advisory Council (ISAC) is an independent expert committee, responsible for advising government on the development and delivery of the UK's modern Industrial Strategy and monitoring progress on its objectives.

In its first year, the Council was commissioned by the Chancellor of the Exchequer and Secretary of State for Business and Trade to focus on three priority areas alongside its ongoing advisory role: labour markets and skills, dynamism in the UK and strengthening the monitoring and evaluation of the Industrial Strategy.

This report is one of a series of publications from the Council under that work programme. The Council will also publish an annual report later this year.

Further details of the Council's remit and work programme can be found on gov.uk.

Foreword

Skilled workers are the drivers of innovation and growth. Yet employer investment in workforce skills has been declining in the UK, including in many of our growth-driving Industrial Strategy sectors.

A skilled workforce enables firms to adopt new technologies, compete successfully in global markets, and generate growth and productivity benefits that can raise living standards. As technological change accelerates, investment in skills is increasingly important to supporting the jobs of the future and ensuring that businesses can seize new opportunities.

Reversing the trend of declining employer investment is essential. This report sets out targeted recommendations aimed at increasing employer investment in skills, improving collaboration across the skills system, and ensuring that the workforce is equipped to meet the needs of the economy both now and in the future.

Tackling the UK's skills challenges will require a range of reforms, in addition to increasing the level of employer investment. The UK's Industrial Strategy is crucial to this agenda, ensuring businesses have access to the skills and talent they need to stay competitive. The Council welcomes the government's commitment to developing comprehensive Jobs Plans for the Industrial Strategy sectors. We hope that the analysis and recommendations presented here will inform the Jobs Plans and contribute to building the skilled workforce of the future.

I am grateful to the Council members who led this work, and to the many businesses, training providers, researchers and trade unions who shared their expertise and insights throughout the project. Their contributions have been invaluable.

Professor Dame Nancy Rothwell DBE, Deputy Chair of the Industrial Strategy Advisory Council

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Executive summary

Skills investment is a recognised driver of productivity and innovation, and supports economic growth and improved living standards. Economies that invest in people are more resilient to shocks and harness the benefits from technological transformation.[1] The Industrial Strategy is therefore critical to the skills agenda, ensuring the UK has the workforce capabilities needed to support growth in the sectors with the highest potential. However, many of the Industrial Strategy's eight priority sectors (IS-8)[2] are experiencing challenges recruiting the skills needed for the future workforce. This is set to be exacerbated, with jobs in occupations that are critical to the Industrial Strategy projected to grow by 1.8 million by 2035, underlining the scale of the workforce challenge.[3] At the same time, employer investment in training has declined by 19% in real terms between 2011 and 2024.[4]

While employers in the IS-8 sectors invest more in training than the wider economy, both the proportion of firms participating in training and the amount they spend vary significantly across IS-8 sectors and by firm size.[5] The vast majority of large employers do invest in the skills of their employees, but they also account for the majority of the long-term decline in employer training expenditure observed since 2011.[6] Participation in training and engagement in the skills system is far lower for smaller businesses suggesting differences in the barriers they face to investing in skills.[7]

Higher-productivity, "frontier" firms, are distinguished both by how much they invest and which skills they invest in. The quality, targeting and strategic use of the training is important, with frontier firms prioritising management training.

As technological advances - including in artificial intelligence - continue to shape business activities, it will be crucial that the workforce is equipped with the skills needed to harness opportunities. The objective should not simply be a skills system that responds to current needs, but one that develops the capacity to adapt to future workforce needs.

The Industrial Strategy Advisory Council ("the Council") was asked by government to provide insights into the barriers causing declining employer investment in skills, and to provide evidence-based advice on reversing the trend. The findings and recommendations in this report are drawn from a combination of data analysis and structured stakeholder engagement.

The evidence points to several interacting barriers which can hinder employer engagement in the skills system and hold back investment:

- System complexity, policy churn and information gaps can deter engagement, particularly among SMEs with less capacity. Employers can struggle to identify priority skill needs, assess training options and navigate available support.
- Coordination failures and weak collective action can lead firms to underinvest where they cannot capture the full returns from training, particularly where skills needs cut across sectors, places and supply chains.

- Gaps in local availability, quality, relevance and flexibility of training provision can reduce employer confidence and take-up. Training available to firms often does not align with sector needs or cannot be delivered in ways that fit around day-to-day operations.

These challenges are exacerbated by rapid technological transformation driving changes and uncertainty in employers' skills needs. Uncertainty deters investment, making it difficult for employers to identify and signal their skills needs. The rapid pace of change makes it difficult for training providers to provide timely, high-quality training at local and regional level. Increasingly, the challenge is not simply forecasting future skill needs accurately, but building institutions capable of adapting as technologies, business models and workforce requirements evolve.

The Council's central finding is that the challenge is not solely one of funding. Employer investment is being held back by fragmentation, weak coordination and a lack of effective mechanisms for collective action. As workforce needs become more uncertain through technological disruption, the skills system must become better at bringing together employers, workers, providers and government to identify needs, coordinate investment and respond to change.

Addressing these barriers requires a coordinated package of system-level reforms, with government having a clear role in enabling employer action. The focus is on strengthening employer engagement through existing institutions and mechanisms (rather than creating new delivery bodies) so that they, along with workers and government, can jointly shape reforms. Ongoing coordination between employers, workers and government will help the system to remain responsive to current and future needs. The Council recommends action across four priority areas to support employers:

- **Reducing system complexity**, including strengthening employer-facing brokerage, structuring the skills offer within each IS-8 sector as clear entry, upskilling and conversion pathways, and introducing a cross-government simplification test for new skills policies.
- **Strengthening coordination and collective action**, by reinforcing sector-level and local institutions that bring together employers, workers and government to shape skills priorities. These institutions should help identify and articulate emerging skills needs across sectors and places, while piloting employer-led training consortia in priority sectors.
- **Mobilising large employers to support skills development within their supply chains**, including by using public procurement and social value levers more consistently where workforce capacity is critical to delivery.
- **Improving training quality, responsiveness and evidence**, including aligning funding and incentives to support modular Level 4–6 provision, improving comparability of skills standards, and embedding proportionate evaluation.

The government has committed to publishing Industrial Strategy Sector Jobs Plans, to provide a practical mechanism for translating wider skills system reforms into actions

to address the workforce challenges facing different sectors. The Council's recommendations are intended to support these plans in moving towards credible, measurable employer commitments, particularly in areas such as collective training approaches, anchor employer leadership, and supply chain investment.

While recent reforms - including to the Growth and Skills Levy and future rollout of the Lifelong Learning Entitlement - improve system flexibility, they are not sufficient on their own. Delivering a sustained increase in employer investment in skills will require coordinated action across government, working through existing institutions and levers to support long-term change.

Introduction

The Council's 2025/26 mandate letter asked it to provide evidence-based advice to support increased employer investment in skills in the Industrial Strategy sectors.

This paper summarises findings from our structured stakeholder engagement with SMEs, large employers, academics and researchers, and training providers. These insights were used alongside data analysis to inform the evidence-based recommendations presented in this report. Throughout the project, emerging insights were shared with relevant government departments to inform the development and delivery of the Industrial Strategy Sector Jobs Plans.

As part of the Council's work programme on labour markets and skills, we are doing further work to explore the skills needs of the IS-8 in different places to support the effective targeting of national and place-based policies that promote investment in high-priority skills. This builds on and complements the work already published by Skills England and will be published in September 2026.

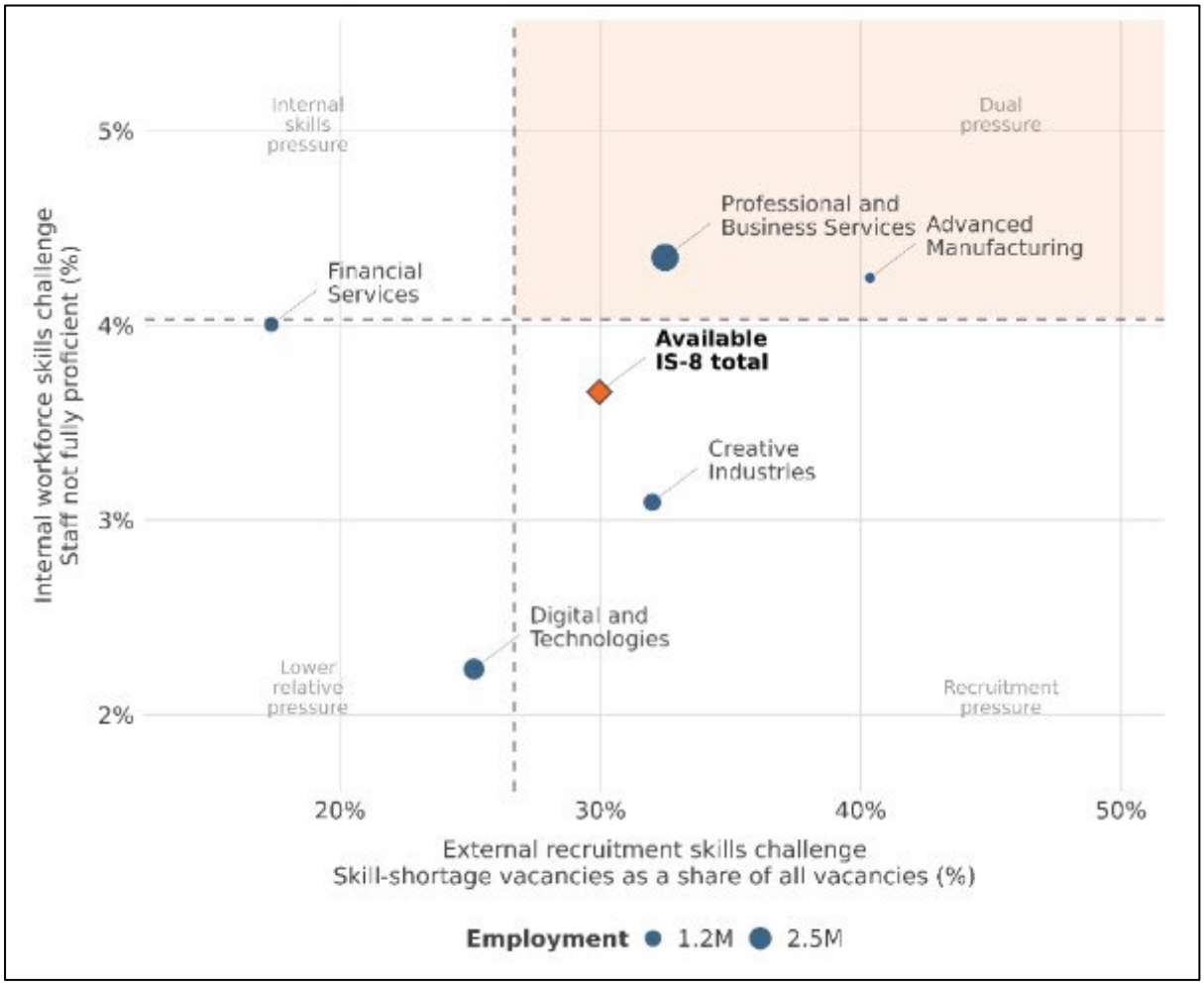
Section 1: the need for increased employer investment in skills in the IS-8 to boost productivity and living standards for workers

Skills shortages in the IS-8: a constraint to innovation and growth

The competitiveness of the UK's high growth sectors rests on access to skills and talent.[8] Yet, IS-8 sectors face 85,600 external skill-shortage vacancies and have 349,000 employees with skills gaps.[9] These shortages are set to be exacerbated, with jobs in occupations that are critical to the Industrial Strategy projected to grow by 1.8 million by 2035.[10] IS-8 sectors generally have a higher share of skill shortage vacancies than the wider economy.[11] Professional and Business Services and Advanced Manufacturing sectors face dual pressures of higher-than-average external recruitment difficulties and internal workforce capability gaps.

Figure 1: The IS-8 have a higher share of skill shortage vacancies than the wider economy.

Graph of observable IS-8 sectors' external skills shortage vacancies (x-axis) and current staff skills proficiency gap (y-axis) and the UK average for each measure (dashed line), for 2024.



***Source**: ISAC analysis using Employer Skills Survey 2024.*

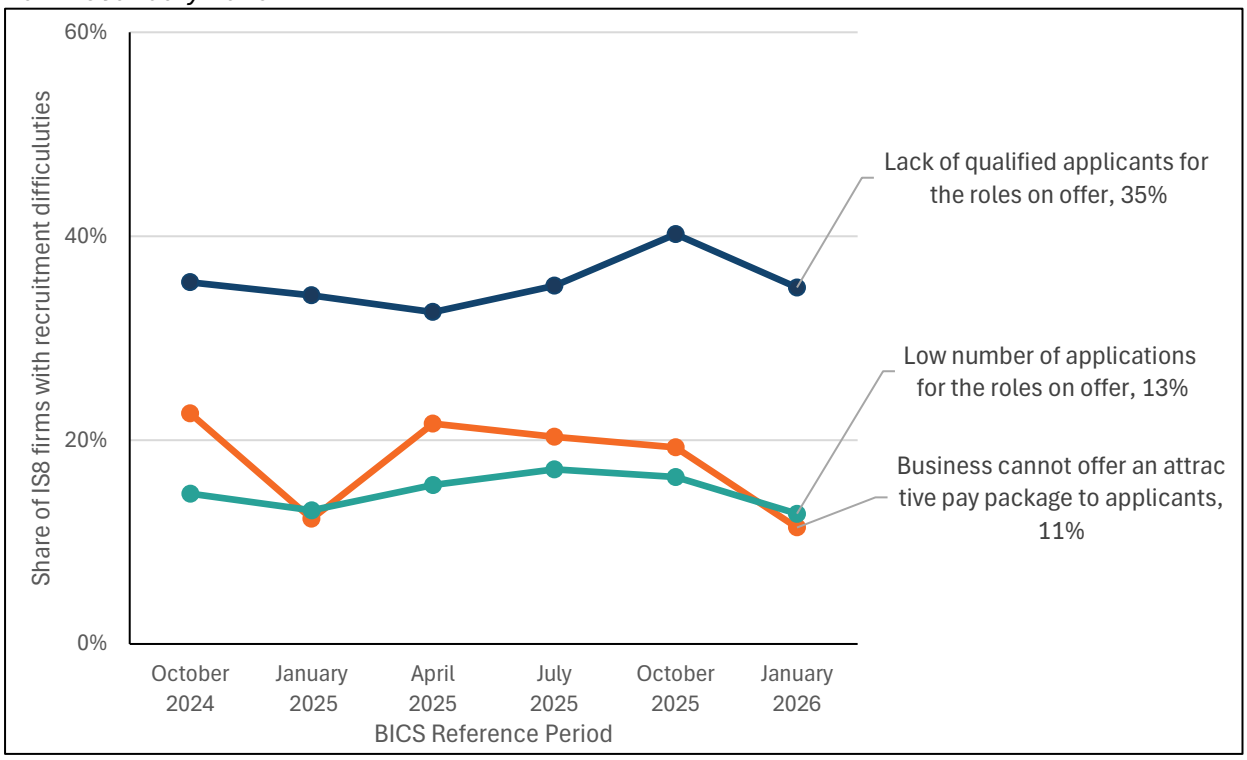
Notes:

- *Sectors to the right of the vertical dashed line have a higher share of external skill-shortage vacancies than the UK average. Sectors above the horizontal dashed line have a higher share of current staff not fully proficient than the UK average.*
- *An internal skills challenge value of 4% (y-axis) means 4 in every 100 employees are reported as not fully proficient. An external skill-shortage vacancy value of 30% (x-axis) means 30 in every 100 vacancies are hard to fill because of difficulties finding applicants with the required skills, knowledge and/or experience.*
- *See Annex A for method notes.*

Further survey-based evidence for January 2026 suggests that, of the IS-8 businesses experiencing recruitment difficulties, 35% experienced a lack of qualified applicants and 13% experienced low numbers of applications.[12]

Figure 2: Lack of qualified applicants is the most commonly reported recruitment difficulty among IS-8 businesses.

Graph showing the reasons IS-8 businesses are experiencing recruitment difficulties, October 2024 to January 2026.



Source: *ISAC analysis using Business Insights and Conditions Survey (BICS) microdata. Base: IS-8 businesses that answered the question on reasons for experiencing recruitment difficulties by selecting at least one response, excluding businesses that had permanently ceased trading.*

Notes:

- *The 'BICS reference period' refers to the survey 'wave' in which businesses reported their experiences.*
- *37% of businesses responded "not sure", 16% responded "other". The remaining reasons—an increased number of vacancies, a reduced number of applicants aged 16 to 24 years, a reduced number of applicants aged over 50 years, and a reduced number of EU applicants—were each reported by fewer than 5% of businesses.*
- *Multiple responses were permitted.*
- *See Annex A for method notes.*

The skills challenges experienced today are constraining future productivity and economic growth by holding back innovation. Around one in ten IS-8 businesses reported that a lack of suitable skills had reduced their ability to adopt new technologies, processes or innovate.[13]

For firms that are already innovating, 40% reported lack of skills as a barrier to innovation in 2025.[14] 26% of UK businesses said recruitment problems had restricted R&D or product/service development.[15]

Higher employer investment in skills could encourage a greater reliance on UK-based staff, and less reliance on migration as a route to fill skills gaps.

Phil Smith CBE
"From speaking to businesses up and down the country it's clear that employing people with the right skills is one of the most pressing challenges that they face. A capable workforce helps businesses of all sizes improve their operations, make the most of new technologies, and stay competitive in a fast-changing landscape. But many businesses are struggling to access the talent they need – whether that's bringing in new people with the right skills or upskilling and reskilling those currently in the workplace.

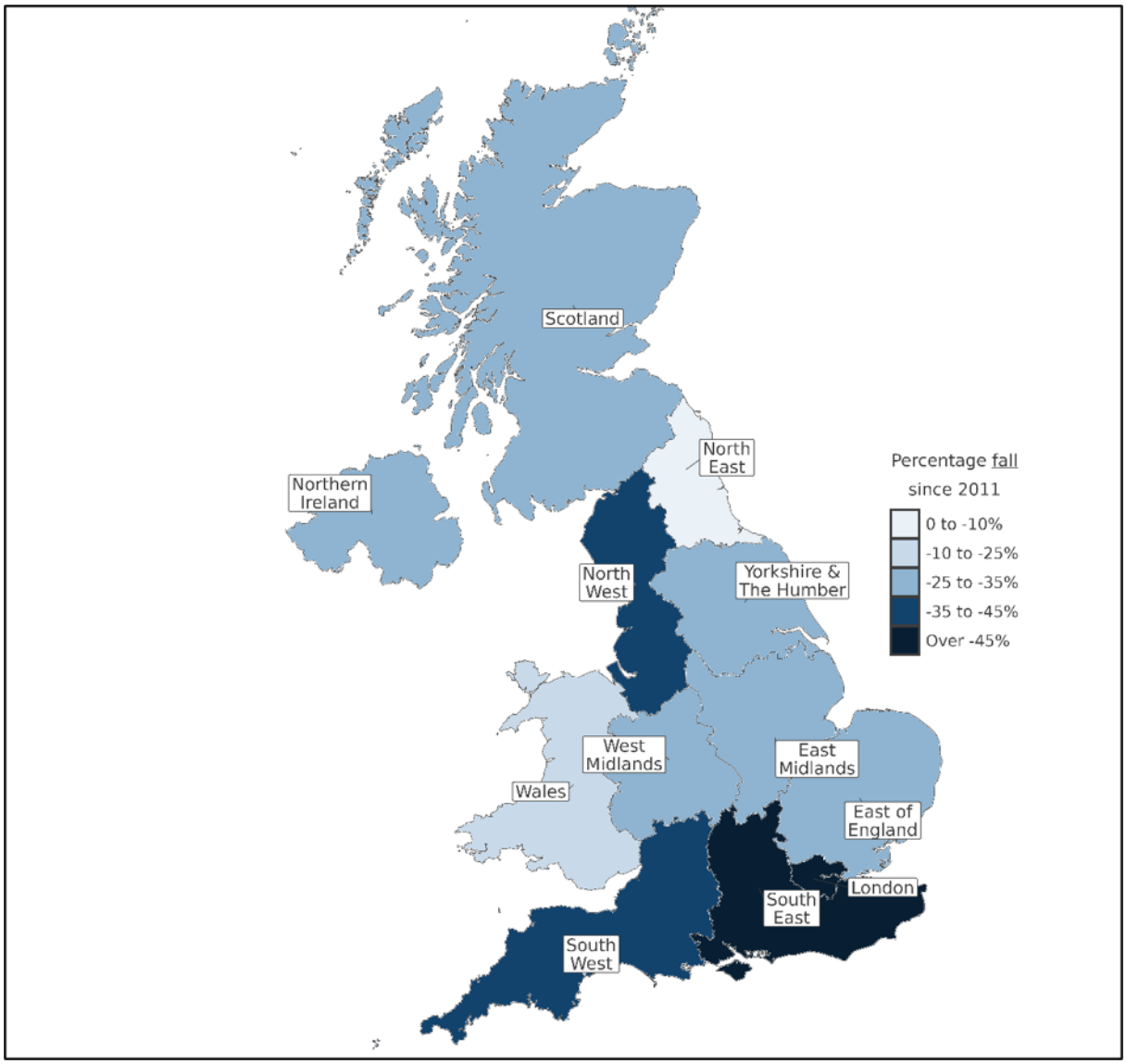
Addressing these challenges is critical not only for individual businesses, but for the wider performance of the economy."

Employer investment in skills in the UK is in long-term decline

As well as experiencing recruitment challenges, employer investment in skills in the UK is in long-term decline, including in many of the IS-8 sectors. Employers invested £53 billion in training in 2024, a 10% real-terms decrease compared with 2022, and 19% lower in real terms when compared with 2011.[16] The sustained decline in the amount invested per trainee is seen across nations and regions of the UK but is largest among employers in the South East.[17]

Figure 3: Real-terms employer investment per trainee has fallen in every region and nation

Real-terms percentage change in investment per trainee between 2011 and 2024.



Source: *ISAC analysis using Employer Skills Survey 2024.*

Notes:

- *Geography shown at ITL1 level.*
- *Data covers all sectors, including non-IS-8 sectors.*
- *See Annex A for method notes.*

The overall reduction in employer investment includes a reduction in 'training intensity' measured by investment in training per employee which fell from £2,410 in 2011 to £1,700 in 2024 and by investment per trainee, which fell from £4,420 to £2,710 over the same period, in real terms.[18] Similarly, training participation, measured as the proportion of employers that funded or arranged training over the previous 12 months for their employees, fell from 65% in 2011 to 59% in 2024.[19]

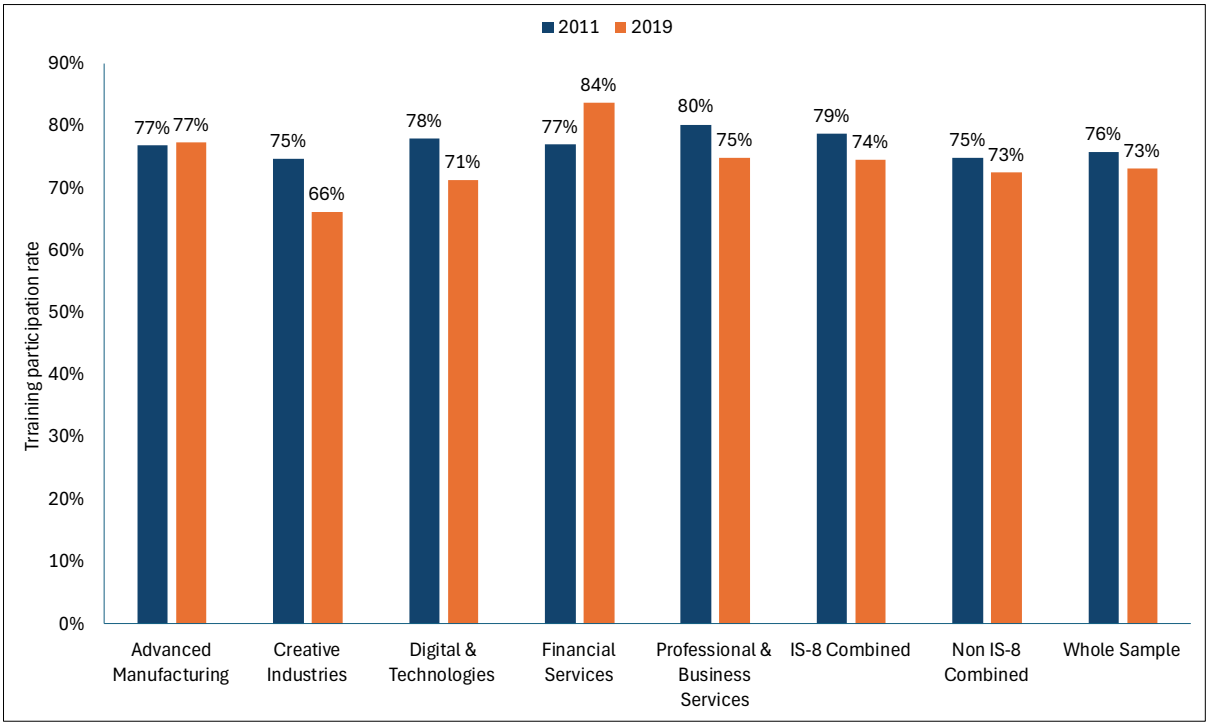
Investment patterns vary substantially by business size. Almost all (99%) large employers provide training compared with 61% of micro firms.[20] Despite high

participation rates, the majority (~58%) of the reduction in skills expenditure has been driven by large businesses with 100 or more employees.[21] These businesses have seen a reduction in training intensity between 2011 and 2024; although they trained more people, they did so for fewer days.[22] This reduction could reflect shorter training and/or adoption of cheaper methods of training such as switching to online training platforms.

New IS-8-focused analysis by the Centre for Business Prosperity (CBP) at Aston University shows that the proportion of businesses in the IS-8 sectors that invest in training their workforce is above the whole economy average, but that it declined from 79% to 74% between 2011 and 2019, the most recent year for which data is available.[23] The decline reflects a reduction in Creative Industries, Digital and Technologies and Professional and Business Services' training participation, while the proportion of businesses providing training grew by 6.6 percentage points in Financial Services.[24]

Figure 4: Training participation varies across the IS-8, with Financial Services reporting the highest and Creative Industries the lowest in 2019.

Training participation rates for 2011 and 2019 across observable IS-8 sectors, non-IS-8 sector average, and the whole economy.



Source: *CBP at Aston University.*

Notes:

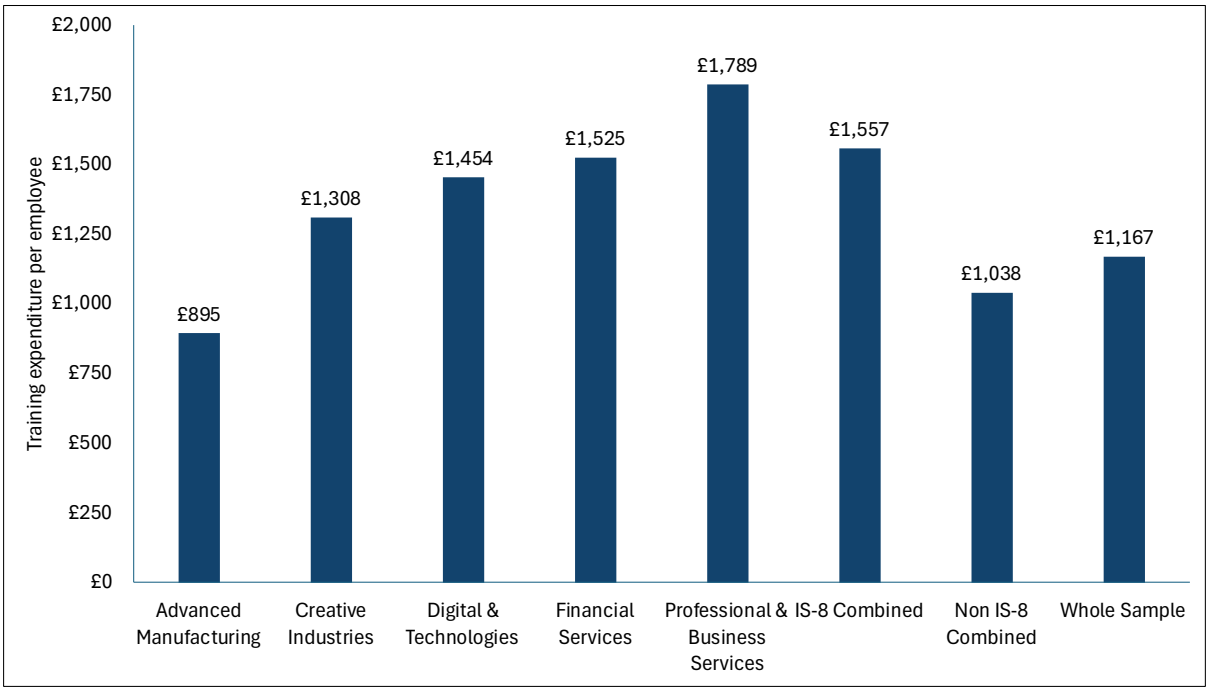
- *See Annex A for method notes.*

The training intensity of IS-8 sectors is typically higher than the whole economy average and has increased in real terms from £1,852 per employee in 2011 to £2,007 per employee in 2019.[25] Investment per employee is around 33% higher in IS-8 sectors compared with the whole economy average, and varies widely between the IS-8,

ranging from a lower bound of £895 per employee in Advanced Manufacturing to £1,789 in Professional and Business Services.[26]

Figure 5: IS-8 sectors invest considerably more per employee than the whole economy.

Average training expenditure per employee across observable IS-8 sectors, non-IS-8 sector average, and the whole economy, from 2011 to 2019.



Source: *CBP at Aston University.*

Notes:

- *See Annex A for method notes.*

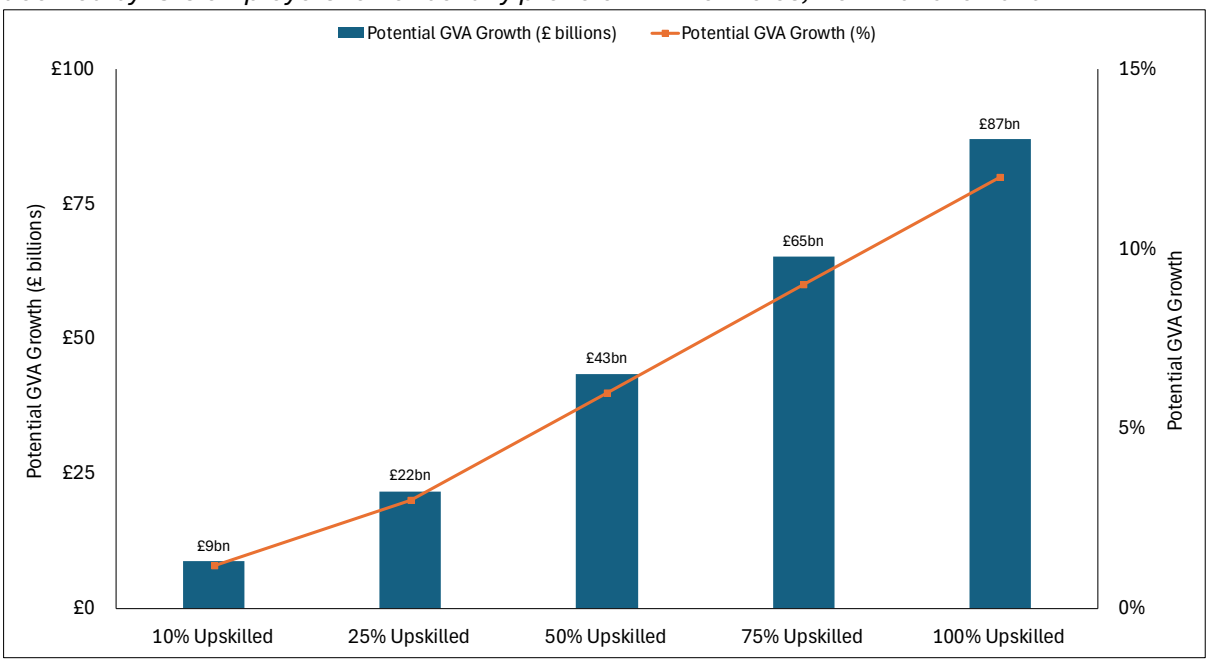
Growth and productivity gains through increased employer investment in skills

Investment in human capital – the knowledge, skills and competencies of the workforce – has long been recognised as a key driver of economic growth.[27] Skills development can reduce unemployment and underemployment, raise productivity, and improve living standards.[28] Economies that invest in people can also recover faster from economic shocks, generate more innovation and achieve more resilient growth.[29] For businesses, skills are essential not only for employees to perform effectively in their current roles, but are also increasingly important as they adapt to the global technological transformation and capture the growth opportunities it creates.

New analysis from Oxford Data Technologies and the University of Oxford's Centre on Skills, Knowledge, and Organisational Performance (SKOPE) suggests that significant growth could be unlocked by facilitating IS-8 workforce upskilling to meet employer-identified skill gaps. For example, the potential return on upskilling even a small subset of the IS-8 workforce – 10% – could yield approximately £9 billion (or 1.2%) in cumulative GVA growth between 2026 and 2029.[30]

Figure 6: Upskilling 10% of the IS-8 workforce could potentially increase cumulative GVA by £9 billion, over the period 2026 to 2029.

Cumulative GVA growth from upskilling the proportion of the existing IS-8 workforce who are deemed by IS-8 employers to not be fully proficient in their roles, from 2026 to 2029.



Source: *Oxford Data Technologies and the University of Oxford's Centre on SKOPE.*

Notes:

- *Excludes Financial Services and Life Sciences sectors.*
- *See Annex A for method notes.*

A growing economy increases the overall wealth generated, creating scope for higher wages and living standards. Growth driven by higher productivity (how efficiently inputs are converted into outputs) is particularly important as productivity is widely recognised as the main driver of rising wages and living standards.

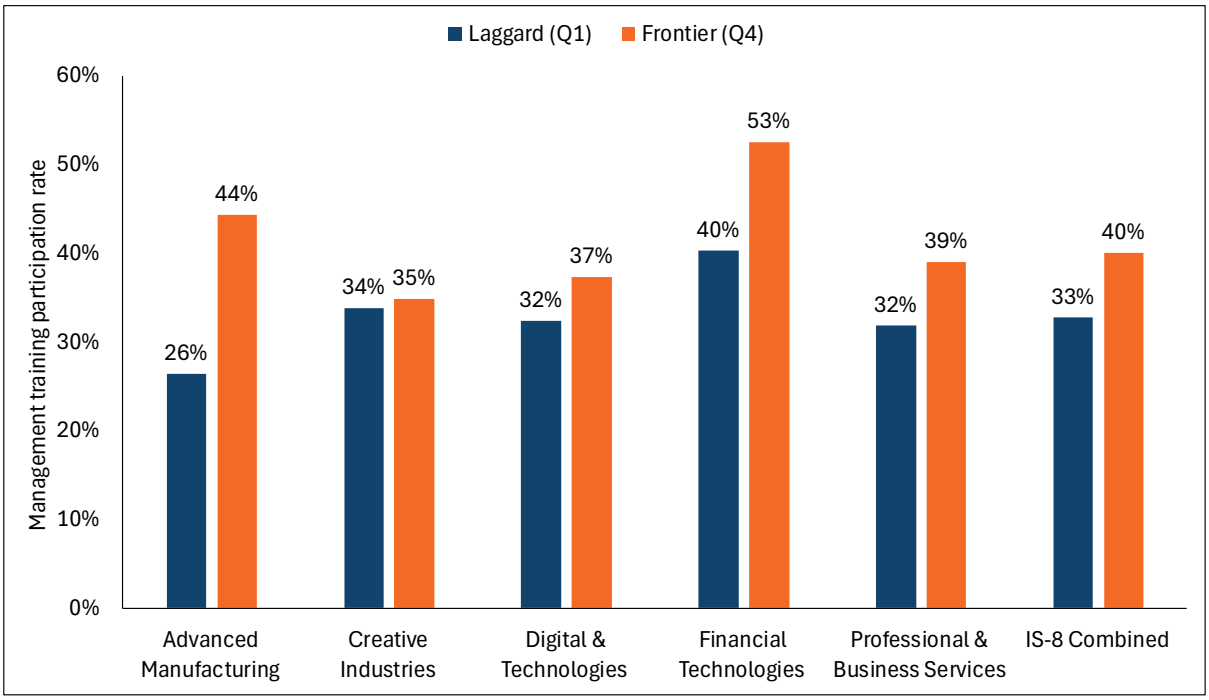
The composition of training matters

Management training is the key differentiator for high productivity firms (those close to the productivity frontier in their sectors). Across all observable IS-8 sectors, the proportion of frontier firms (defined as the top productivity quartile in each sector) investing in management training for their employees is between 5 and 18 percentage points higher than laggard firms (the bottom productivity quartile in each sector), depending on the sector.[31]

Other academic research reinforces this, finding that managerial training expenditure is positively associated with higher firm-level productivity.[32]

Figure 7: The proportion of frontier firms investing in management training is between 5 and 18 percentage points higher than laggard firms.

Management training participation rate of highest and lowest productivity quartile of businesses in observable IS-8 sectors, from 2011 to 2019.



Source: *CBP at Aston University.*

Notes:

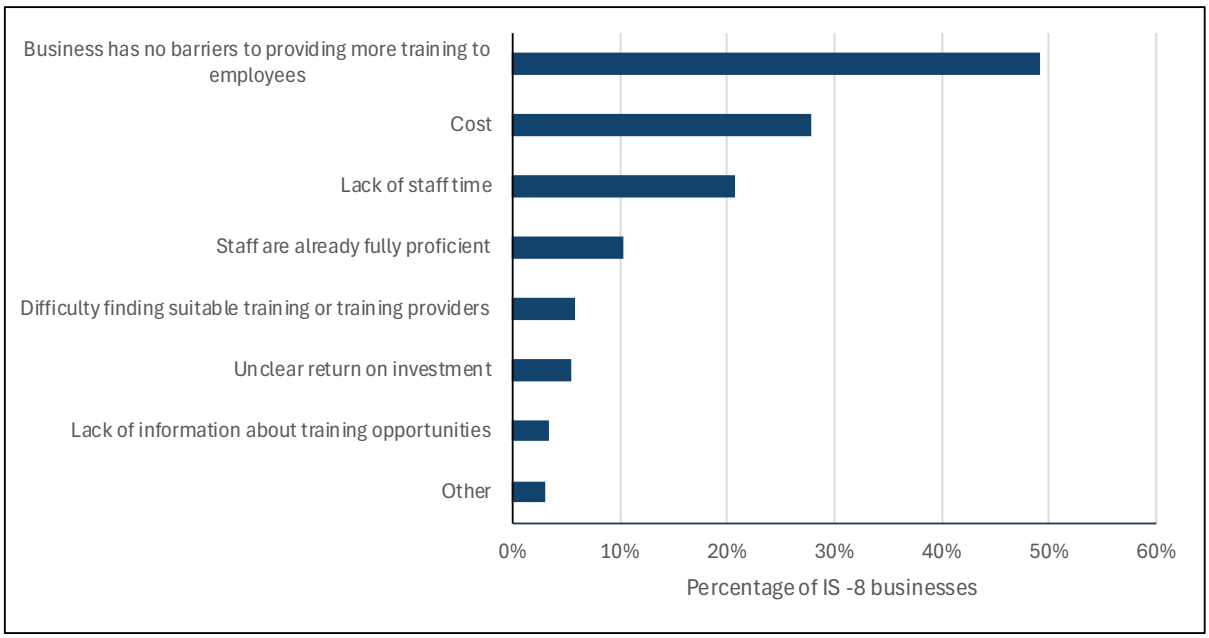
- *See Annex A for method notes.*

Section 2: the barriers holding back employer investment in skills

To understand the experience of stakeholders engaging with the skills system and the barriers they face when investing, we engaged with a range of different sized businesses, trade unions, and academics.

Figure 8: Cost and staff training time are among the most commonly cited training barriers reported by IS-8 firms.

Graph showing reported barriers to training among IS-8 businesses, April 2026.



Source: *ISAC analysis using BICS Wave 157.*

Notes:

- *Estimates weighted by count.*
- *The chart base is all IS-8 businesses not permanently stopped trading with a valid survey weight: unweighted n = 3,619.*
- *Businesses could select more than one response so percentages should not be summed.*
- *"Business has no barriers to providing more training to employees" is included as a response option and should not itself be interpreted as a training barrier.*

Cost and lack of staff time are among the most commonly cited barriers to providing more training reported by IS-8 businesses, according to new analysis of the Business Insights and Conditions Survey. These constraints were highlighted through our engagement with businesses, many of whom said their ability to invest in skills was negatively impacted by uncertainty over the return on investment of workforce training, coupled with day-to-day financial pressures and the need to reduce operating costs. However, employers were clear that the barriers are not solely financial. Skills system complexity (including complex funding rules), weak coordination, and the perceived lack of availability of high-quality and relevant training were also cited. Many employers, particularly SMEs, struggle to identify priority skills needs, navigate

available support, assess the likely returns from investment, or coordinate effectively with other firms. At the same time, rapid technological change is increasing uncertainty about future skills requirements.

New analysis of the Employer Skills Survey, the Investment in Training Survey, and the Business Structure Database suggests that management constraints (training not seen as a management priority or such decisions are made elsewhere) and staff suitability (staff already proficient, not keen, or not ready) are the most significant deterrents to further skills investment, even after accounting for other factors including firm characteristics and workforce/occupational composition.[33] While they are less commonly reported barriers, when they are present, they are associated with a sharper drop in spend per employee than other barriers analysed.[34] Across the whole economy, management constraints and staff suitability are relatively more prevalent among non-training firms and those below-the-frontier of training compared to firms near/above-the-training frontier.[35]

Four barriers to increased employer investment in skills emerged from our engagement with businesses.

Barrier 1: System complexity, policy churn and navigation challenges

Skills systems are often fragmented, requiring employers to navigate multiple providers, funding streams and regulatory requirements.[36] A consistent finding from our engagement is that this complexity and policy 'churn' acts as a significant deterrent to employer investment. Employers, particularly SMEs, face a fragmented landscape of programmes, providers and funding streams. This increases the resource requirement, opportunity cost and uncertainty associated with training decisions and, in many cases, leads to disengagement. Businesses highlighted the benefits of supporting system navigation for SMEs, and providing policy stability.

Complexity raises the cost of training by increasing search costs, administrative burden, uncertainty and the management time required to identify appropriate provision. Cost and lack of time could be understood as symptoms of broader frictions within the skills system.

> *"Complexity is a significant barrier, particularly for SMEs and employers without dedicated training, HR or workforce development capacity. Many employers want to invest in skills but find the system fragmented, with multiple funding routes, programme types, eligibility rules, providers and policy terms that are not always easy to interpret"* – ***Training provider***

Barrier 2: Gaps in collaboration and collective action failures

Meeting the UK's skills needs is a shared challenge that requires government, employers, workers, and skills providers to work together in an effective, coordinated way. However, worker voice is not always consistently embedded across existing institutions. In sectors where institutions remain primarily employer-led, the system may miss insight from workers on aspects such as training design and access, or barriers preventing training from translating into higher productivity.

Employer investment decisions are often constrained by coordination failures. Individual firms may underinvest in training where they cannot fully retain the benefits, for example because trained workers move to other employers, skills generate wider sectoral benefits, or returns take time to materialise. Firms, particularly smaller employers, may also lack the scale or capacity to engage effectively with the formal skills system.

While local employer demands for skills are increasingly identified through mechanisms such as Local Skills Improvement Plans (LSIPs), this demand is not consistently translated into coordinated action or training provision. As a result, the system fails to operate at the level required to address sector-wide skills challenges. Effective institutions that foster cooperation between employers, workers, training providers and government would bring partnership approaches to solving future skills challenges.

In addition, effective institutions will be increasingly needed to support adaptation to changing workforce needs. Industry highlighted that technological change is shortening the lifespan of some skills and increasing demand for others, making it harder for individual firms to anticipate future requirements. Collective action can help the skills system respond more quickly to changing labour market needs by aggregating demand signals.

Barrier 3: Supply chain constraints

Large employers play a critical role in shaping workforce demand across sectors and supply chains. However, this role is currently underutilised. While many large firms invest in their own workforce, these investments do not consistently translate into wider benefits for smaller firms or the broader labour market. Coordinated training across the supply chain could bring productivity benefits to both large anchor companies and smaller businesses.

Across all IS-8 sectors combined, firm size is the strongest predictor of whether a firm trains its workforce of the variables analysed. When a firm is larger, the probability that it trains its workforce increases by approximately 15 percentage points. [37] Similarly, there is a 33-percentage point gap between micro firms (66% of which provide training) and large firms (99% of which provide training).[38]

"The strongest lever would be a clearer policy and commercial framework that rewards anchor employers for investing in skills beyond their own workforce." - ***Training provider***

Barrier 4: Supply of training

Even where employers are willing to invest, confidence in the training offer remains a barrier. Employers consistently report concerns about whether provision is sufficiently relevant (keeping pace with emerging skill needs), flexible and aligned to business needs.

Recent reforms, including Apprenticeship Units and the planned rollout of the Lifelong Learning Entitlement, will introduce greater flexibility, particularly through modular provision. However, the underlying funding and delivery system remains more strongly aligned to full qualifications, limiting responsiveness to employer demand. Businesses suggested opportunities for more flexible, high-quality and employer-responsive training provision. A more responsive system would increase employer confidence that training investment remains relevant as technologies and business models change.

Section 3: tackling barriers to increased employer engagement in the skills system

The Council welcomes the UK Government's focus on skills and productivity, including the reforms set out in the Post-16 Education and Skills White Paper (including expanded modular provision at Levels 4–6 and the future rollout of the Lifelong Learning Entitlement) and the increased flexibilities introduced through the Growth and Skills Levy. [39] These reforms respond to challenges raised by businesses, including the need for greater flexibility, improved access to short courses, and opportunities to strengthen employer engagement in course design.

However, as highlighted in section 2, there are persistent barriers to increased employer investment in skills. Greater flexibility and additional funding alone are unlikely to deliver the sustained increase in employer investment required to support growth in the Industrial Strategy sectors. The central challenge is not a lack of employer demand for skills, but a skills system that makes investment more difficult, risky and fragmented than it needs to be.

The development of Industrial Strategy Sector Jobs Plans represents an important step forward, by providing a framework through which government, employers, workers and other partners can align around shared priorities and practical delivery mechanisms. The Council's recommendations are intended to support these plans in moving towards credible, measurable employer commitments, particularly in areas such as collective training approaches, anchor employer leadership, and supply-chain investment. To support accountability and ensure plans remain responsive to changing workforce needs, government should consider annual updates to Sector Jobs Plans to review progress against commitments, assess emerging skills challenges, and refresh priorities where needed.

The Council's recommendations on collective action, shared apprenticeship pathways, and anchor-led supply chain training are intentionally designed to make these flexibilities usable in practice. Recommendations on employer-provider co-design, FE–HE partnerships, and higher-level technical provision are intended to increase employer confidence in quality and relevance, building on these reforms rather than displacing them. Further and higher education will be critical partners in translating Industrial Strategy workforce priorities into practical routes for entry, upskilling and conversion. This should include stronger employer-provider partnerships, clearer progression routes between FE and HE, and modular provision that enables workers to build skills over time without requiring full-time retraining. Recommendations on funding for Further and Higher Education were beyond the scope of this project, but were raised during our consultations with stakeholders.

We have set out recommendations that focus on reducing friction in the system for employers, strengthening collective action, using existing institutions and employer

networks to increase private investment in workforce skills, and improving the responsiveness and quality of training provision.

Principles for effective action

In developing advice, the Council has been guided by a set of principles that reflect the practical constraints facing employers, workers, training providers, and public bodies.

1. **Reduce friction.** Barriers are often informational or organisational rather than purely financial. Simplifying access and signalling can unlock investment without additional spending.
2. **Support collective solutions where markets fail.** Poaching risk, scale constraints and uncertainty deter investment. Coordinated approaches are essential, particularly for SMEs. Shared entry routes and employer-led consortia can help address the coordination and risk barriers that often prevent firms, especially smaller ones, from making use of levy funding, even where flexibility exists.

> *"I can spend three years training an apprentice and at any time they can walk away. It puts an unfair burden on those that do offer training and allows those that choose to poach a massive cost saving."* - ***SME employer***

3. **Build on existing institutions and places.** Employers value stability. The recommendations prioritise making better use of established structures such as Skills England, Mayoral Strategic Authorities (MSAs) and Local Skills Improvement Plans (LSIPs), and sector bodies rather than creating new delivery organisations.
4. **Embed worker voice.** Workers and their representatives can provide valuable insight into emerging skills needs, barriers to training uptake and workforce transitions. Effective sector governance should ensure their perspectives inform workforce planning and skills priorities.
5. **Consider practicality for SMEs as well as large firms.** SMEs account for a large share of employment but face distinct constraints on time, capacity and expertise. Policies designed around large employers alone will not shift aggregate investment.
6. **Focus on quality, relevance and future skills.** The returns from training investment depend not just on volume but on whether training aligns with current and future skill needs. Employer confidence in provision is a precondition for sustained investment.
7. **Build adaptive capacity into the skills system.** Skills needs will continue to evolve as technologies, business models and labour markets change. Effective institutions should therefore not be only optimised for incumbent employer demand, but should support continuous feedback between employers, workers, providers and government, enabling provision and investment priorities to adapt as demand changes.

8. **Provide clarity and coherence over time.** Frequent policy change and overlapping initiatives undermine engagement. A clearer, more stable framework would help employers plan and invest with confidence.
9. **Align skills investment with non-skills policy levers.** Recent procurement reforms and social value requirements provide scope to reward training commitments as part of commercial decision-making. Used selectively, these levers can increase the expected return on employer investment in skills.

The Council has developed four interlinked areas of recommendation, underpinned by the principles outlined, and each with suggested actions for government, sector bodies and employers. Taken together, these recommendations aim to move the system from one in which provision exists but investment is limited, to one in which employers are better able and more willing to invest in the skills needed to drive productivity and long-term growth through the Industrial Strategy.

Recommendation 1: Actions to promote an accessible and navigable skills system for employers

A significant barrier to investment is not the absence of provision, but the difficulty many employers face in understanding what support is available, which skills matter most, and how best to invest. Complexity increases transaction costs and makes firms less likely to act. These costs fall disproportionately on SMEs with limited HR and workforce planning capacity.

Specific actions we recommend:

- **Government strengthens and standardises employer-facing skills brokerage through existing local and sectoral structures** (e.g. LSIPs, MSAs, Growth Hubs), with a clear focus on improving employer engagement. By "brokerage", the Council means practical support that helps employers diagnose workforce needs, identify relevant provision and funding routes, connect with providers, and aggregate demand with other firms where shared needs exist.
- **Government presents skills provision within Industrial Strategy sectors as simple and coherent employer-facing pathways**, structured around entry routes into priority occupations; upskilling routes for existing workers; and conversion routes for career changers.
- **Government applies a cross-government skills simplification test for new skills policy** to help prevent further fragmentation, reduce policy churn and ensure new skills initiatives align. A test would assess factors such as alignment with Jobs Plans, impact on system fragmentation, and usability for employers (particularly SMEs).
- **Sector bodies and local partners provide a single "front door"** for employers within each sector or local system.
- **Sector bodies and local partners should aggregate and communicate employer demand** using sector boards, worker consultations, employer surveys and provider feedback to identify priority skills needs and translate them into clearer signals for providers and government.

- **Employers should engage with brokerage and sector pathways** to articulate demand and shape provision.

Case Study – Greater Manchester Skills System

Greater Manchester has developed a strong employer-facing approach through its Growth Company and local skills system, bringing together business support, skills provision and labour market intelligence. Existing business support outreach to firms connects employers to this service, enabling employers, particularly SMEs, to access advice on workforce needs, connect to training provision, and navigate local and national programmes through a more integrated offer. The approach demonstrates how combined authorities can lead partners in the region to develop a coordinating "front door" for skills and business support, without creating new national structures.

Recommendation 2: Strong collective action and sector governance

The evidence reviewed by the Council suggests that many barriers to employer investment arise from weak coordination across the skills system. Effective workforce planning increasingly depends on employers, workers, providers and government working together to identify shared workforce challenges, shape provision and respond to changing skills needs. The Council therefore recommends stronger sector and local partnership arrangements, based on a tripartite model, that support practical coordination and collective action on workforce priorities. These should build on existing institutions wherever possible, rather than creating new ones.

Specific actions we recommend:

- **Government should ensure each Industrial Strategy sector has a clear tripartite workforce partnership forum bringing together employers and worker representatives, providers and government** tasked with identifying common workforce needs, shaping skills policy and support, and reviewing whether provision is meeting sector needs. Where a credible forum already exists, it should be used; where it does not, government and sector bodies should consider how one can be established through existing Jobs Plan or sector governance arrangements.
- **Government should use these forums to test the feasibility of voluntary employer-led training consortia**, particularly in places with Industrial Strategy sector clusters and clear shared occupational demand. Pilots should proceed where there is evidence of employer willingness to participate, provider capacity and a credible route for SMEs to benefit.
- **Government should consider how collaborative employer action can be recognised and supported through the skills system,** including through greater flexibility in funding arrangements, curriculum design and training delivery where employers are working collectively to address shared workforce challenges.
- **Government should support shared workforce planning, skills forecasting and demand signalling**, so sector and local institutions can respond more

quickly as technologies, business models and occupational needs change. This should build on the work of Skills England and its sectoral analyses.

- **Sector bodies should coordinate employer and worker input and translate demand into shared priorities**, including by ensuring SMEs can engage without taking on disproportionate administrative burdens.
- **Employers should make visible commitments where common skills needs exist**, including commitments to co-design provision, participate in consortia where appropriate, and invest in training that supports shared sector capability.

Case Study - Sector talent boards, Greater London Authority

The Greater London Authority has supported sector-focused employer boards to bring together businesses, providers and public partners to identify shared skills priorities and inform delivery. These boards provide a structured mechanism for employers to articulate demand, shape provision, and coordinate activity across a sector.

By convening employers around shared workforce challenges, the model helps translate demand into actionable priorities for the skills system. It also provides a practical route for employers, including SMEs, to engage in shaping provision without taking on formal commissioning responsibilities.

Recommendation 3: Mobilise anchor employers to strengthen skills investment across supply chains

Many large employers already invest substantially in their own workforce development to drive innovation and efficiency. However, many of these firms rely on a system of smaller suppliers and partners (the supply chain) and would stand to gain significant value from ensuring that these smaller suppliers also have the skills they need to drive up productivity and innovation.

Large employers could potentially gain significant benefit from acting as convenors, investors and capability-builders within their wider ecosystems. Government should seek to mobilise large employers as system leaders capable of driving up skills uptake and productivity gains in the smaller companies that make up their critical UK supply chains.

Specific actions we recommend:

- **Sector bodies and local partners should identify and support anchor employers willing to play a convening role** within priority sectors and clusters. They should promote and scale successful collaborative supply-chain training models.
- **Large 'anchor' employers should open appropriate training opportunities, expertise and infrastructure to suppliers where there is shared benefit.** This could be through levy transfers, shared academies, digital platforms and collaborative training programmes to support SME capability-building.

- **Employers should work with suppliers to identify common workforce needs** and coordinate investment where returns are shared.
- **Government should use procurement and major public investments to encourage credible supply-chain skills commitments** where workforce capability is critical to delivery.

Case Study – Advanced Manufacturing cluster workforce development, Filton

Airbus has partnered with Weston College Group and a range of aerospace and advanced manufacturing employers to establish the Advanced Manufacturing Technical Excellence College (AMTEC) at its Filton site. The facility has been developed with input from employers including Rolls-Royce, GKN Aerospace, MBDA, Babcock and regional SMEs, with training provision designed around the workforce needs of the wider aerospace, defence and advanced manufacturing sectors rather than a single employer.

By helping to create shared training infrastructure and an employer-led curriculum, Airbus is using its position as an anchor employer to strengthen the regional skills pipeline and support capability development across a wider industrial ecosystem. The model illustrates how large employers can go beyond investing in their own workforce, acting as convenors that bring together providers, suppliers and industry partners to address shared skills challenges.

Case Study - Fair Work Charter and skills commitments in offshore wind (DESNZ)

The Department for Energy Security and Net Zero has introduced a Fair Work Charter for the offshore wind sector as part of its Contracts for Difference auctions. Developers seeking public support are required to sign up to the Charter, linking access to funding with commitments on workforce standards and skills investment.

The Charter is a tripartite agreement between government, industry and trade unions, setting expectations on worker voice, job quality and employment standards and includes requirements for developers to invest in workforce development. By embedding these requirements into eligibility criteria for public funding and procurement-style processes, the approach shapes employer behaviour across supply chains, including contractors and suppliers involved in major infrastructure projects.

Recommendation 4: A high-quality, employer-aligned and evidence-informed training offer

Skills needs are changing rapidly as new technologies, including AI and digital technologies, reshape business models and job roles. Employers consistently told the Council that responsiveness and relevance are as important as access to provision. The challenge is therefore not simply to expand the supply of training, but to ensure the system can adapt quickly to changing employer demand and support entrepreneurship. This includes supporting provision that can evolve as technologies and occupational requirements change, enabling workers and employers to build skills progressively throughout careers rather than relying solely on fixed qualification pathways. The Council places particular importance on management capability, digital skills and other cross-cutting skills that support productivity across multiple Industrial Strategy sectors.

Specific actions we recommend:

- **Government improves how higher and further education funding supports modular, stackable and industry-relevant training in priority sector shortage areas**, ensuring that learning can be accumulated and recombined as workforce needs evolve. This should include strengthening incentives for FE and HE providers to work with employers on modular provision, conversion pathways and supporting co-funded delivery models between employers and providers.
- **Government strengthens employer involvement** in curriculum design and delivery.
- **Government embeds proportionate evaluation in pilots and reforms** to build the evidence base before scaling.
- **Government improves employer-facing comparability of skills standards** across the UK.
- **Sector bodies support employer–provider co-design** of training provision.
- **Sector bodies ensure standards and pathways are clearly communicated**.
- **Employers engage actively in course design and curriculum development**.
- **Employers prioritise investment** in skills that support entrepreneurship, innovation, technology adoption, management capability and business scaling.

Case Study – University of Manchester and FE college partnerships

The University of Manchester works with further education partners to co-design and deliver technical and digital skills provision. This collaboration allows local employers to access training that integrates academic expertise with practical delivery, supporting both entry into technical careers and progression within them. The model highlights how FE–HE partnerships can respond more flexibly to employer demand while strengthening regional skills systems.

Building on existing policy and devolution arrangements

The recommendations in this report apply primarily to England, reflecting the devolved nature of much of skills policy. In particular, the recommendations assume the operation of Skills England, the Growth and Skills Levy, and devolved arrangements within England through Mayoral Strategic Authorities (MSAs) and Local Skills Improvement Plans (LSIPs).

All Industrial Strategy sectors nevertheless operate across UK-wide labour markets. Where relevant, the Council highlights opportunities for voluntary alignment and collaboration with the devolved administrations, while fully respecting devolved responsibilities for skills funding, commissioning and delivery in Scotland, Wales and Northern Ireland.

Rather than proposing additional national programmes to address the decline in employer investment in skills, the recommendations emphasise better alignment, clearer employer-facing signals, and the effective use of existing institutions.

Several of the Council's recommendations align directly with the establishment of Skills England and its remit to improve coherence, standards and access within the skills system. In particular, recommendations on skills brokerage, clearer sector pathways, and consolidation of employer-facing offers support Skills England's role as a system steward.

Annex

Annex A: method notes

Figure 1: IS-8 sectors' external skills shortage vacancies and current staff skills proficiency gap

The Employer Skills Survey (ESS) is based on a sample of employers. Survey weights are applied to adjust for differences between the achieved survey sample and the wider employer population, including where particular types of employer are over or under-represented. This ensures that the resulting estimates better reflect the known distribution of employers by characteristics such as sector, size and geography.

IS-8 sectors were identified using published Standard Industrial Classification (SIC) codes available when the analysis was undertaken. Sector definitions are subject to change.

Clean Energy Industries could not be included because the sector is not defined using Standard Industrial Classification (SIC) 2007 codes and therefore could not be separately identified and weighted using the ESS. Too few interviews were achieved with employers in Defence to produce robust weighted estimates. Life Sciences is included in the combined IS-8 estimate but is not reported separately in Figure 1 because of its low survey base. The "available IS-8 total" therefore covers six sectors: Advanced Manufacturing, Creative Industries, Digital and Technologies, Financial Services, Life Sciences, and Professional and Business Services.

Bubble sizes represent weighted employment estimates. Larger bubbles indicate sectors with higher employment.

Figure 2: Reasons IS-8 businesses are experiencing recruitment difficulties

The analysis uses Business Insights and Conditions Survey microdata and covers IS-8 businesses that reported recruitment difficulties. Estimates are weighted to represent the business population. Businesses could select more than one reason, so percentages should not be added together.

Results from April 2026, collected in BICS Wave 157, have not been included. An error during survey deployment substantially reduced the number of responses to this question compared with previous waves. In line with ONS guidance that these results should be used with caution, Wave 157 has been excluded from the published chart. The issue affected this question only.

Figure 3: Regional change in investment per trainee

The underlying figures present a point-to-point comparison between 2011 and 2024. Employer investment per trainee can be volatile over time, particularly at the regional level, and the scale of the estimated change may be sensitive to the choice of start and end years. The results should therefore be interpreted as the change between these two specific years, rather than as a measure of the trend throughout the period. Investment per trainee is presented in 2024 prices. [40]

Figures 4, 5, and 7: Training participation, expenditure per employee, and management training participation

The analysis uses three linked datasets: The Employer Skills Survey (ESS) provides training participation data and coverage by occupation for a representative sample of UK establishments surveyed biennially. The Investment in Training survey (IiT) provides detailed training expenditure data by training type and employee category. The Inter-Departmental Business Register (IDBR)'s Business Structure Database (BSD) provides firm characteristics including turnover, employment, age, ownership, and sector classification.

The linked sample covers 185,656 firm-year observations spanning 2011 to 2019 (the earliest and most recent years available for firm-level analysis). Five IS-8 sectors have sufficient sample sizes for individual analysis: Advanced Manufacturing, Creative Industries, Digital Technologies, Financial Services, and Professional and Business Services. Clean Energy, Defence, and Life Sciences are excluded from sector-specific analysis due to small samples (<100 observations) but are included in overall IS-8 aggregates and the whole sample/economy figures. IS-8 sectors were identified using published Standard Industrial Classification (SIC) codes at the time the analysis was undertaken and are subject to change.

Figure 6: Potential GVA increase from upskilling IS-8 workforce

Data and definitions

Using employer-reported skills deficit and expenditure data from the Employer Skills Survey (ESS) and GVA data from the Annual Business Survey (ABS), the analysis models predicted GVA growth each year between 2026 and 2029 derived from addressing skills gaps. The ABS provides approximate Gross Value Added (GVA, £ million) by Standard Industrial Classification (SIC) code from 2008 to 2024. It is used to fit a historical GVA trend and project forward to 2029. The ABS control variables are capital expenditure and employment by SIC. The 2024 ESS survey wave is used as the baseline and accessed via the two-digit SIC code.

Only two-digit divisions where all underlying activity falls within the IS-8 are included, ensuring no double-counting across sectors. The model additionally uses an identical set of SIC divisions for both the ABS GVA trend and the ESS workforce proxies, so that GVA and employment figures are drawn from the same underlying industry population on both sides of the calculation.

In instances where 2024 data is suppressed, 2022 figures are used. Applying this approach, the model uses 22 SIC divisions common to both datasets: 20, 26–30, 58–63, 69–74, 77–78, 82 and 90. SIC 21 (Life Sciences) and SIC 64–66 (Financial Services) meet the clean-coverage criterion but are excluded from the aggregate model specifically due to data availability gaps. IS-8 sectors were identified using published Standard Industrial Classification (SIC) codes at the time the analysis was undertaken and are subject to change.

The Office for National Statistics (ONS) does not publish Financial Services GVA in the ABS, and to ensure GVA and ESS workforce figures are drawn from an identical set of industries, Financial Services is correspondingly excluded from the ESS-derived workforce proxies as well. Life Sciences (SIC 21) is similarly excluded from both the GVA trend and the ESS workforce proxies, since the underlying ESS data for this division is fully suppressed in both 2024 and 2022.

Methodology

An Ordinary Least Squares (OLS) modelling approach is used for establishing an initial benchmark for the potential size of the opportunity should higher workforce skills investment be achieved across IS-8 sectors. The results should be seen as indicative, order-of-magnitude estimates, rather than causal.

The GVA trend is modelled using a bivariate log-linear OLS regression fitted to the historical GVA series (2008–2023) for all IS-8 sectors contained in the ABS data and project to 2029, using a sequential time index. The parliamentary cycle analysed, between 2026 and 2029, is pro-rated to from 1st September 2026 to 9th July 2029. This produces a projected GVA trajectory representing the baseline ‘no additional skills investment’ scenario. ESS inputs are held fixed at their 2024 values throughout the forecast period (2022 figures are used for SIC divisions suppressed in 2024).
For each year from 2026 to 2029, the model estimates the GVA uplift from upskilling or added training to an illustrative proportion of the segment of the existing workforce that is reported as not fully proficient in their roles.

GVA uplift is estimated by applying projected GVA-per-worker to the share of the proxy workforce targeted under each scenario (10% to 100%). The uplift is calculated as: (skill gaps × upskilling share) × (projected GVA / employees).

Endnotes

[1] New Economy Skills: Unlocking the Human Advantage, World Economic Forum, December 2025.
[2] IS-8 sectors: Advanced Manufacturing, Clean Energy Industries, Creative Industries, Defence, Digital and Technologies, Financial Services, Life Sciences, Professional and Business Services
[3] Based on IS-8 sectors plus the health and social care sector and the construction sector. For further details see: Skills England annual skills report 2026.
[4] Employer skills survey 2024: UK findings, Department for Education and Skills England. Figures are presented in 2024 prices.
[5] Centre for Business Prosperity at Aston University. 'Training investment in IS-8 sectors: descriptive analysis of sectoral trends and firm heterogeneity', March 2026. Unpublished analysis provided to ISAC. Expenditure defined as expenditure per employee.
[6] Employer skills survey 2024: UK findings, Department for Education and Skills England. Figures are presented in 2024 prices. Large employers defined as sites with 100 or more employees.
[7] Centre for Business Prosperity at Aston University. 'Training investment in IS-8 sectors: descriptive analysis of sectoral trends and firm heterogeneity', March 2026. Unpublished analysis provided to ISAC. Small businesses in this example are defined as those with nine or fewer employees.
[8] The UK's Modern Industrial Strategy 2025.
[9] Employer skills survey 2024: UK findings, Department for Education and Skills England. Appendix J, Table J-1; and ISAC analysis of the survey microdata. Estimates cover six of the eight IS-8 sectors identifiable in the survey. Clean Energy Industries and Defence are excluded because robust weighted estimates could not be produced. The estimate of 85,600 skill-shortage vacancies is published in Table J-1. The estimate of 349,000 employees with skills gaps was calculated by ISAC from the microdata. Survey weights were applied to adjust for differences between the achieved sample and the wider employer population, and to produce estimates representative of vacancies and employment in the relevant sectors. Figures are rounded to the nearest 100.
[10] Based on IS-8 sectors plus the health and social care sector and the construction sector. For further details see: Skills England annual skills report 2026.
[11] Clean Energy and Defence are not included in the IS-8 totals. Life Sciences is included in the IS-8 totals but due to low base sizes has been excluded from individual sector results.
[12] ISAC analysis using Office for National Statistics Business Insights and Conditions Survey microdata, Waves 121, 127, 133, 139, 145 and 151, covering reference periods from October 2024 to January 2026.
[13] ISAC analysis of Office for National Statistics Business Insights and Conditions Survey microdata, Wave 157. Businesses were asked: "What impact is not meeting skills demand likely to have on your business's growth over the next 12 months?" Responses were collected between 18 and 31 May 2026. Estimates relate to IS-8 businesses and are weighted by business count. Businesses could select more than one response so percentages may not sum to 100%.
[14] Nafizah, U. and Roper, S. November 2025. Innovation State of the Nation 2025: Survey Report. Oxford, UK: Innovation and Research Caucus.
[15] Ibid.
[16] Employer skills survey 2024: UK findings, Department for Education and Skills England. Figures are presented in 2024 prices.
[17] Employer skills survey 2024: UK findings, Department for Education and Skills England.
[18] Ibid. Figures are presented in 2024 prices.
[19] Employer skills survey 2024: UK findings, Department for Education and Skills England.

[20] 'Training investment in IS-8 sectors: descriptive analysis of sectoral trends and firm heterogeneity', Centre for Business Prosperity at Aston University, March 2026. Unpublished analysis provided to ISAC.
[21] Employer skills survey 2024: UK findings, Department for Education and Skills England.
[22] Employer skills survey 2024: UK findings, Department for Education and Skills England. Figures are presented in 2024 prices.
[23] Training participation rate refers to the percentage of businesses that provide training, expressed as a proportion of the total number of firms within a sector in a given year.
[24] 'Training investment in IS-8 sectors: descriptive analysis of sectoral trends and firm heterogeneity', Centre for Business Prosperity at Aston University, March 2026. Unpublished analysis provided to ISAC.
[25] Ibid. Figures are presented in 2024 prices using: Consumer Price Index (CPI) inflation data from the Office for National Statistics.
[26] Ibid. Figures are presented in nominal prices.
[27] OECD (2022), The importance of human capital for economic outcomes and Learning and Work Institute (2025), Falling short: Understanding further falls in employer training.
[28] World Bank Group, Skills and Workforce Development.
[29] New Economy Skills: Unlocking the Human Advantage, World Economic Forum, December 2025.
[30] 'Estimating Skills Investment Impact – Moving the Dial on Economic Growth with a Focus on the Eight Priority Sectors in the UK Government's Industrial Strategy' *[forthcoming publication]*, Oxford Data Technologies and the University of Oxford's Centre on SKOPE, June 2026. 'Upskilling' defined as the skills employees in each sector need to become fully proficient.
[31] 'Training investment in IS-8 sectors: descriptive analysis of sectoral trends and firm heterogeneity', Centre for Business Prosperity at Aston University, March 2026. Unpublished analysis provided to ISAC.
[32] The Impact of Staff and Manager Training on Firm Productivity: Differential and Interaction Effects, Susan Schwarz, Jun Du, Uzoamaka Nduka, Lin Zhang, 2025.
[33] 'Employer training investment in IS-8 sectors: conditional patterns, and training gaps', Centre for Business Prosperity at Aston University, May 2026. Based on results for the 'whole sample/economy' and 'non-IS-8 sample'.
[34] Ibid.
[35] The training frontier is defined as the average training intensity of firms in the top quartile of firms in the full sample. Each firm's relative training intensity is then calculated as its observed training intensity divided by the frontier level. Firms are then grouped into five categories based on their relative training intensity, ranging from 'non-training firms' which report no training activity at all (relative training intensity is therefore zero) to 'above-frontier firms' (which operate at or above 100% of the frontier benchmark).
[36] Imran Tahir, Institute for Fiscal Studies, featured in: The New Statesman, February 2026.
[37] 'Training investment in IS-8 sectors: descriptive analysis of sectoral trends and firm heterogeneity', Centre for Business Prosperity at Aston University, March 2026. Unpublished analysis provided to ISAC.
[38] Ibid.
[39] The Growth and Skills Levy, Department for Education.

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AI was used as a support tool during preparation of this report, specifically to support project research, meeting transcripts and stylistic improvements to the material. The final content has been reviewed and approved by the Industrial Strategy Advisory Council Secretariat, who remain responsible for its accuracy and conclusions.

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