BUILDING BRITISH SKILLS · PAPER 03

Paper III: Paying for Skills

Reforming the levy and asking employers and industry to share the cost of training.

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The National Skills Account gives every citizen the means to train. But the state cannot and should not pay for every skill the economy uses. Employers benefit from the skills of the people they employ and should contribute to them. Universities that charge for longer or more expensive courses should share the risk that their graduates cannot repay, and employers who recruit from abroad rather than train at home should bear more of the cost of that choice.

In Germany, employers carry most of the cost of workplace training voluntarily, sustained by chambers, coordinated wage setting and a long tradition of training. Britain lacks those institutions, which is why it introduced a training levy. In Singapore, employers who rely on foreign labour pay levies that make training at home the cheaper choice, and the revenue supports training. This paper draws on both.

It proposes that the Growth and Skills Levy be reformed so that employers' contributions flow into the National Skills Accounts of the people they train, that sectors may establish their own training funds by agreement, that contributions to any person's account be relieved from tax and that industry co-fund the applied subjects it relies on. It proposes a higher Immigration Skills Charge directed to training at home, with a reserve power to limit dependence on sponsored workers where employers persistently fail to train. It also keeps Britain open to the highly skilled specialists that its critical industries, including artificial intelligence, need while those skills cannot yet be found at home. And it sets out the transition of university finance to the entitlement and the regulated graduate contribution.

1 How skills are paid for now

Skills in England are paid for through several separate channels that do not work together. Universities are funded mainly by tuition fees, financed by student loans of which around 30% of new full-time lending is not expected to be repaid. Employers with a paybill above £3 million pay the Growth and Skills Levy at 0.5% of their paybill, less an allowance of £15,000, which in effect is 0.5% of the paybill above £3 million, into a training fund used mainly for apprenticeships. Construction and engineering construction have their own statutory training levies. Employers who sponsor overseas workers pay the Immigration Skills Charge, which rose by around a third in December 2025 to £1,320 a year for each worker sponsored by a medium or large employer and £480 for a small one.

CHANNEL	CURRENT POSITION
Student loans	Around 30% of new full-time lending not expected to be repaid
Growth and Skills Levy	0.5% of paybill above £3 million

CHANNEL	CURRENT POSITION
Immigration Skills Charge (medium and large sponsors)	£1,320 per sponsored worker per year
Immigration Skills Charge (small sponsors)	£480 per sponsored worker per year

The result is a system in which the state pays heavily for one route, employers' contributions are confined largely to apprenticeships and the cost of recruiting from abroad remains low compared with the cost of training at home.

2 Principles

The state funds the citizen. The National Skills Account provides every citizen with an entitlement to train. Other funding should add to it, not replace it.

Employers pay for the skills they use. Employers should contribute to the training of the people they employ and the sectors they depend on, and should be able to direct that contribution where it does most good.

Risk sits with those who set the price. Universities that charge beyond the entitlement should bear the risk that the charge is not repaid.

Training at home should cost less than recruiting abroad. The charges on sponsored recruitment should reflect the cost of the training that recruitment replaces. This applies to occupations Britain can train for itself. Highly skilled specialists in critical industries where Britain does not yet have the skills should be welcomed and should not bear the charge while the domestic pipeline is built.

3 Employers

S21 Reform the Growth and Skills Levy into contributions to National Skills Accounts

Keep the Growth and Skills Levy at its present rate, but allow levy-paying employers to direct their levy funds into the National Skills Accounts of their employees and prospective apprentices, recorded by source. Funds may be spent on apprenticeships, technical qualifications, British Master qualifications, courses at research universities and Universities of Technology and shorter courses for staff, and unspent funds will be pooled after a fixed period to fund apprenticeships in smaller employers.

Levy funds may be spent only on training that gives a person a new occupation or a substantially higher level of skill, consistent with the conditions for apprenticeship funding. They may not be used for induction, compliance training or other training an employer must provide in any case. To prevent capture by large providers, no single provider may receive more than a set share of the levy funds of any one large employer without independent assessment of value.

S22 Allow sectors to establish their own training funds

Allow the employer-led skills body in each sector, with the support of a majority of employers in that sector, to establish a sector training fund that replaces the general levy for its members. A sector fund may pool contributions, reimburse firms that train apprentices for the cost of doing so and fund training

centres shared by smaller firms. The existing training levies in construction and engineering construction show that sector funds can work in Britain, and the model follows the pooled funds that support training in parts of German industry.

S23 Relieve contributions to National Skills Accounts from tax

Treat contributions by an employer to any person's National Skills Account as deductible for corporation tax and as exempt from income tax and National Insurance for the recipient. Contributions may be made to the accounts of employees, prospective recruits and students on courses an employer wishes to support. This encourages employers to invest in training beyond the levy, including in people they have not yet employed.

S24 Ask industry to co-fund the applied subjects it relies on

Allow sector skills bodies and individual employers to sponsor places on courses in applied subjects at research universities and Universities of Technology, and to fund applied research at the Catapult centres linked to them. Sponsorship will count as a contribution to National Skills Accounts and receive the relief in S23. Sponsorship will add to, and not replace, the funding of designated strategic subjects such as engineering. The state will continue to fund the pure sciences and mathematics through that designation, because industry rarely funds them directly and the research universities depend on them.

4 Recruitment from abroad

S25 Raise the Immigration Skills Charge and direct it to training at home

Raise the Immigration Skills Charge in stages so that it reflects the cost of training a worker at home in the occupation concerned, and direct its revenue to training. Revenue will fund additional units in the National Skills Accounts of people training for occupations that rely heavily on sponsored workers and support sector training funds in those occupations. The charge will continue to apply to public sector employers in the same way as to private employers, at the higher rates, so that public bodies also face the full cost of recruiting abroad instead of training. Revenue from charges paid by NHS employers and schools will be paid into their own training budgets, as set out in the fourth paper. Charges paid by public employers move money within public spending rather than raising new revenue for the Exchequer, but they change the choice each employer faces between training and recruiting abroad.

Increases will be phased and announced in advance, rising fastest in occupations where domestic training capacity is expanding, so that employers have time to train and are not left unable to fill posts while domestic supply grows. The higher charge applies in occupations where Britain can realistically train its own workforce. It will not apply to highly skilled specialists recruited to the industries identified as critical in Building British Industry and in the sovereign artificial intelligence programme, including artificial intelligence, life sciences, advanced materials, semiconductors, power electronics, autonomous systems, space and nuclear, while Britain does not yet have those skills at home. These specialists will be recruited through an expanded fast-track route building on the Global Talent visa, which requires no sponsorship and carries no charge. The list of qualifying occupations will be reviewed every three years on the advice of Skills England, and occupations will leave it as domestic training catches up. Eligibility will be limited to demonstrated expertise against a defined shortage or exceptional capability, shown by endorsement from a designated body in the field or by a senior specialist role on a

published shortage list, with experience and pay well above the norm for the occupation. Technician and graduate-entry roles that the domestic training system is designed to fill will not qualify, so that the route cannot be used to avoid the charge or the incentive to train.

S26 Take a reserve power to limit dependence on sponsored workers

Take a reserve power, on the advice of Skills England, to limit the proportion of an employer's workforce in a specified occupation that may be filled by sponsored overseas workers. The power may be used only in occupations that have relied on sponsorship for a sustained period, where domestic training places are available and where employers have not made reasonable use of them. Limits will be phased in with notice and reviewed regularly. Singapore uses limits of this kind alongside its levies to ensure that employers invest in their own workforce. The power will not apply to specialists recruited through the fast-track route for critical industries.

5 Universities

S27 Move university finance to the entitlement and the regulated graduate contribution

For students starting after a set date, replace tuition fee loans with the entitlement at 18, the funding of designated strategic subjects and the regulated graduate contribution set out in the first paper. Students already on courses will complete them under the existing arrangements.

Universities will receive the entitlement directly as students enrol and progress, and will collect any contribution above it through HMRC at their own risk. The Office for Students will monitor the financial resilience of institutions during the transition and will operate an orderly process for institutions that cannot adapt, so that students can complete their studies elsewhere if a course or institution closes.

6 How the system is funded

Taken together with the first and fourth papers, the funding of skills will rest on six sources.

SOURCE	ROLE
The Exchequer	Entitlements at 18, renewals at 25 and 40, designated subjects and loans for living costs, replacing the present cost of tuition loans and existing adult skills budgets
Employers	The Growth and Skills Levy directed into National Skills Accounts, sector training funds and voluntary contributions relieved from tax
Universities	The graduate contribution above the entitlement, collected at their own risk
Sponsors of overseas workers	A higher Immigration Skills Charge directed to training in the occupations concerned
Learners	Income-contingent repayment of loans for living costs, without real interest
Public employers	NHS funding of medical, nursing and dental training beyond the entitlement, and the training allocation for schools, as set out in the fourth paper

7 Territorial application

Education and skills are devolved, while immigration and the taxes affected by this paper are reserved.

FIELD	APPLICATION
Growth and Skills Levy and sector funds	Levy collected across the United Kingdom. Use of levy funds through National Skills Accounts applies in England, with the devolved administrations invited to adopt equivalent arrangements
Tax relief on contributions	United Kingdom, as a tax measure
Immigration Skills Charge and dependency limits	United Kingdom
University finance	England

8 Legislation and delivery

The measures will be delivered through the National Skills Account Bill, a Finance Bill and immigration rules, with the reserve power in S26 taken in primary legislation.

INSTRUMENT	MEASURES	CONTENT
National Skills Account Bill	S21, S22, S24 and S27	Levy contributions to accounts, sector training funds, sponsorship of courses and university finance
Finance Bill	S23	Tax relief on contributions to National Skills Accounts
Immigration rules and primary legislation	S25 and S26	Increases in the Immigration Skills Charge, use of its revenue, the fast-track route for specialists in critical industries and the reserve power to limit dependence on sponsored workers

A country that pays to train its own people, and asks those who benefit to share the cost, will no longer need to import the skills it has failed to build.