



Rt Hon Rishi Sunak MP
Chancellor of the Exchequer
HM Treasury
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By email to: action.chancellors@hmtreasury.gov.uk

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Dear Chancellor

Mais lecture follow up: workplace training

I am writing to welcome the indication in your Mais lecture that you are exploring policy options around the reform of workplace training. We have been refreshing our own thinking in this area, in consultation with our membership, and would welcome the opportunity to work together. We are strong supporters of the government's recent approach to provide free courses in subjects where we have skills shortages, for example through the Skills Bootcamps and the Level 3 Lifelong Learning Guarantee in England.

However, although these initiatives are welcome, we do not feel they are sufficient to ensure a step-change in the skills of those already in work. We would urge you to go further to extend the offer to everyone who wants to retrain in a current shortage area. The need for policy intervention is evidenced by businesses constantly citing skills shortages as a top issue of concern: among our SME members over 40% consistently cite 'skills shortages' as exerting a negative effect on their organisation.

There are a number of reasons why this is the case. First, the fact that refresher training is an allowable cost that can be set off against revenue for tax purposes does not take away from the fact that it is still a cost. Second, as soon as a firm decides to go further and *reskill* an existing team member, for example to fill a shortage where it is harder to recruit, the costs associated with doing so cannot be set against revenue because the current regulations only tax deductibility for training that 'updates existing expertise'. Third, there is then the additional risk that the individual, once retrained in a skills shortage area, is more likely to be poached by competitors. Taken together these factors disincentivise businesses, particularly smaller firms, from investing in precisely the areas where the country's needs are greatest: a clear example of market failure.

We therefore recommend introducing a tax super-deduction for firms investing in reskilling staff with training linked to national skills shortages areas.

We think this would have a demonstrable impact on firm decision making: when we asked those of our members who were **not** planning to raise investment in the next year whether a tax deduction for investment in staff training and reskilling would make them change their mind, it was positively received. Turning to the individual, while the availability of free courses under the lifelong learning

guarantee is welcome, it is sometimes the availability of *time* to retrain that prevents uptake of relevant courses. This is particularly the case for lower-paid workers who may already be choosing to sacrifice higher pay prospects in order to work flexibly and/or near where they live due to other concerns or commitments.¹

While the roll-out of employer-sponsored apprenticeships is welcome, the government's own research shows that people who have already been working for a few years may not feel that they are suited to a scheme which, in common parlance at least, implies it is primarily designed for those starting out on their careers.²

Others may not feel that there are meaningful progression routes within their organisations even if they did retrain: across the economy as a whole, for many who start out on low pay in the private sector, improved pay prospects are statistically correlated with changing employers rather than promotion from within.³

While we strongly support apprenticeships, a sole reliance on apprenticeships as a policy tool also does nothing to incentivise firms to improve director-level and other forms of management training. In its current form, therefore, the levy alone does not incentivise businesses to invest in workforce training that will meet the economy's skills needs. Meeting skills needs requires both an in-work training landscape with a strong offering of not only apprenticeships but a variety of other training routes.

We therefore recommend apprenticeship levy funds to be used to subsidise firms to release individuals from the workforce to undertake external training of the employer's choosing that is also on the national skills shortage list.

Underpinning both of these recommendations is a need to have a meaningful list of what our national 'shortage skills' priorities are. The work of the Department for Education's new Future Skills Unit is a step in the right direction in this regard, but it needs to be independent with a statutory remit to advise on the list of shortage skills. As currently constituted, we do not have the confidence that it will be able to do this.

We therefore recommend that the Future Skills Unit should be a separate agency with a single statutory remit to advise as to the list of future shortage skills areas. This list would then underpin the lifelong learning free training offer and workplace training incentive schemes.

This could include management-level retraining for firms who, for example, do not feel that the Help to Grow scheme is structured in a way that is useful for their needs. Taken together these policies would build on the attractive simplicity of the government's approach to date, but in a way that has a demonstrable impact across the whole economy. I hope these perspectives are useful. We would welcome the opportunity to discuss these thoughts further.

Kind regards



Jonathan Geldart
Director General

¹ JRF (2016) *Improving pay, progression and productivity in the retail sector* p15-16

² Department for Education (2021) *Engaging employers in the National Retraining Scheme* p.8

³ CIPD (2014) *Pay progression: Understanding the barriers for the lowest paid* p19-20

cc Rt Hon Nadhim Zahawi MP, Secretary of State for Education
via email to: Sec-OF-STATE.PS@education.gov.uk