

Tax bills and investment in skills

**How can tax relief on training better support
UK engineering and manufacturing?**

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Enginuity

Learning and Work Institute

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About Enginuity

Enginuity is an independent charity that invests £2 million annually in initiatives and programmes that improve access to skills for businesses and people. We help ensure that the sector's safe, skilled, and sustainable workforce is effective, competitive, and future facing. Our Policy Centre for SMEs and Supply Chain tests policy proposals and develops solutions. Our charitable investment funds a wide range of practical support – from Alternative Provision focused on inclusion for neurodiverse young people, to developing leadership skills programmes for SMEs. We remove barriers, reduce disadvantage, and drive greater representation in the engineering and manufacturing sectors.

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Enginuity foreword

Engineering and manufacturing SMEs are vital to the UK's future growth, prosperity and security. They play an integral role in the success of the UK's industrial strategy, delivering our net zero ambitions and providing fulfilling and secure careers. At Enginuity, we are also keenly aware that investment in skills and training is essential to the success of these businesses, and their ability to provide high-quality employment opportunities. This is particularly important given the high numbers of young people NEET and with growing need for upskilling across the economy.

However, more often than not, businesses are telling us that the challenging financial environment is making investment in skills an increasingly difficult commitment. The appetite to invest is there, but with huge inflationary pressures from employment, fuel and energy costs - the margins for training budgets have tightened for SMEs. This is why Enginuity commissioned Learning and Work Institute to undertake research into the potential benefits of a skills tax credit within our sector.

The following report clearly outlines the demand for a skills tax credit, and the potential benefit for both the industry and workers. Nearly all engineering and manufacturing firms surveyed agree that further tax relief would allow them to invest more in skills. Furthermore, roughly two in five believed that tax relief could boost skills spend by up to 29%.

The core recommendation of this report, a 20p taxable credit for each £1 spent on training up to level 5, is not a catch-all solution to the skills challenges facing SMEs today. Instead, we hope that the proposals in this report will ignite the exploration of a potential tax relief solution to support SMEs as they tackle rising costs and growing workforce pressures. The research suggests the challenge is not a lack of ambition from employers, but a lack of capacity to absorb additional investment at a time when margins remain under significant strain.

By giving SMEs greater ability to invest in their workforce, a skills tax credit could support more businesses to recruit, train and retain the talent they need to grow. In doing so, it could help unlock new opportunities for existing workers and young people, strengthen the foundations of the Government's industrial strategy, and ensure that engineering and manufacturing SMEs are equipped to play the full role the country needs them to play.

Ann Watson MBE, CEO, Enginuity

Learning and Work Institute foreword

Skills are vital for economic success and individual opportunity. Yet, on many measures, the UK lags behind other countries. We need to make a collective step forward if we are to grasp the opportunities the future holds. This is true of our whole economy, and for our engineering and manufacturing sectors, which have been identified by the Government as vital for future growth.

There is no one single answer to this challenge. The causes are multiple and so too must be the solutions. That includes creating a growth friendly environment, supporting capital investment, and encouraging employers to work together where this makes sense.

This report focuses on one potential piece of the jigsaw and makes the case for a Skills Tax Credit. This would give businesses a 20p taxable credit for each £1 they spend on accredited training up to level 5. By targeting it in this way, we think this could help increase training where it is currently least likely to happen – among those with lower qualification levels. We estimate it could unlock £2.2 billion of extra training per year at a cost to the public purse of £900 million.

To make the most of this extra training investment we need to offer more business support, so that training is linked to business plans. And, of course, decisions about whether, how and who to train depend on wider business and economic contexts, so a Skills Tax Credit must be part of a broad-based approach to increasing skills and growth.

There are lots of detailed questions remaining about how to strike the right balance between a simple and targeted tax credit, one that businesses find easy to use but that minimises subsidising training that would have happened anyway. Answering these questions will help determine whether the ambition to increase training can be turned into a practical reality.

But the need is clear for both the economy and the engineering and manufacturing sectors. So too is the prize in growth, business success, and opportunity.

Stephen Evans, Chief Executive, Learning and Work Institute

Executive summary

The engineering and manufacturing sectors have been identified by HM Government as vital to unlocking higher growth and prosperity across the UK nations and regions. These sectors are also recognised as critical to wider national priorities such as net zero and defence. Despite these opportunities, there are a number of factors acting as a brake on these sectors' potential.

The UK lags behind other countries on capital investment and technology adoption, with skills utilisation and technology adoption two sides of the same coin. Enginuity have put the annual cost of skills shortages for the engineering and manufacturing sectors at £5.2 billion annually, with a loss of up to 10% Gross Value Added (GVA) for SMEs. Despite these challenges, manufacturing employers' engagement in workforce training is declining, and their investment in skills remains significantly below the UK average.

Engineering and manufacturing employers report a range of factors limiting their ability to invest in training. These include the cost, availability, flexibility, and quality of training, as well as uncertainty over skills needs. They also report wider factors like labour costs, energy costs, and their tax burden. A survey conducted as part of this research found nearly nine in ten engineering and manufacturing employers believe that additional training investment would lead to the adoption of new technologies, increased productivity, improved employee satisfaction, and higher business revenue. In an environment where skills spend is falling, this suggests that challenges and disincentives are outweighing the potential benefits on offer. This points to the need to look at the underlying drivers of skills investment, including financial incentives.

Nearly all (96%) engineering and manufacturing employers surveyed agree that further tax relief would enable them to invest more in skills and training. Two in three (65%) large engineering and manufacturing firms indicate they could increase their training spend by 20% or more. Seven in ten (71%) of firms who back additional relief would favour a model that allows them to directly reduce their tax liabilities by investing more. Of those favouring this model, two-thirds (65%) would prefer a higher rate of relief on training for lower skilled workers *only*, compared to a lower rate of relief on training for all staff. With only 27% of firms current prioritising entry-level employees in existing skills spend, this has the potential to redress inequalities in who gets training at work and help engineering and manufacturing firms grapple with high replacement demand. Overall, we estimate a Skills Tax Credit could result in an additional £2.2 billion annual skills investment across the economy, and an additional £138 million in the manufacturing sector.

However, fiscal measures are not a panacea and will not unlock this potential increased training investment on their own. International examples highlight the benefits of

targeted financial incentives sitting alongside holistic wrap-around support. In practical terms, any new relief would need to balance effective targeting and simplicity, maximising uptake but minimising subsidy for training that would have happened anyway. In a tough fiscal context, exploring how to redeploy existing reliefs to deliver greater bang for buck is prudent. This could be instead of or alongside additional reliefs that may unlock more training but come at a higher cost to the Exchequer.

Summary of recommendations:

- 1. The Government should introduce a Skills Tax Credit giving additional tax relief of 20p for every £1 invested in accredited courses, qualifications and apprenticeships up to and including level 5**
- 2. The Government should back training providers to translate the resulting increased training demand into a bigger market of short and modular options at lower and intermediate skill levels**
- 3. The Government should work with employers and training providers to maximise the quality of accredited training options available for tax relief and increase employer confidence to invest**
- 4. Dedicated support should be introduced to help SMEs comply with tax relief requirements, diagnose workplace needs, and connect with available training.**

Summary of key statistics:

- More than four in five (84%) additional employees in priority occupations in advanced manufacturing are projected to require qualifications at level 4 and above
- British manufacturing workers have access to 47% fewer machines, tools and technologies than workers in similar economies
- Three quarters (75%) manufacturing employers identify skills shortages as the biggest barrier to growth
- Less than half (48%) of employees in manufacturing received training in the last twelve months, the lowest proportion in any sector
- The annual cost of skills related challenges for engineering and manufacturing sectors has been estimated at £5.2 billion, with a loss of up to 10% of GVA for SMEs
- Over four in five (82%) of engineering and manufacturing firms surveyed report a shortage of 'technical or job specific' skills
- More than two thirds (68%) of firms surveyed say 'technical or job specific skills' and 'technical specialists' are prioritised within existing training budgets

- The cost of training (76%), the quality of training provision locally (56%), and the lack of available training provision locally (54%) are all commonly reported by firms as limiting their investment in skills
- Labour costs (74%), energy costs (67%), and corporation tax (63%) are reported by firms as limiting their investment in skills
- Nine in ten (90%) engineering and manufacturing employers surveyed believe that increasing training spend would support the adoption of new technologies and ways of working, and similar proportions believe it would increase productivity (88%), improve employee satisfaction (88%), and boost business revenue and growth (88%)
- Nearly all engineering and manufacturing firms surveyed (96%) agree that further tax relief would enable them to invest more in skills and training, with over two in five (44%) strongly agreeing
- Seven in ten (71%) employers who reported that further tax relief would increase their training spend said that they would favour a model resembling the "super-deduction" on capital spending
- Nearly two thirds (65%) of firms who would favour the super-deduction model would prefer a higher rate of additional relief (50p in £1) on training for lower skilled workers only, over a lower rate of additional relief (25p in £1) on training for all workers in their organisation
- Two in five (39%) firms who would welcome further tax relief believe they could boost skills spending by 10-19% as a result, with a similar percentage (36%) believing they could increase training budgets by 20-29%
- Additional tax relief could unlock £2.2 billion in skills investment across the economy, and £138 million in the manufacturing sector
- Employers surveyed were most likely to select industry or professional bodies (64%) as one of the three providers best placed to deliver training for their organisation
- Just one in five (20%) engineering and manufacturing firms surveyed placed Further Education colleges among their top three preferred training providers, compared with around one quarter (24%) that said the same for universities
- Over two in five (42%) firms say they would give high priority to entry level employees in skills spending if their training budgets were larger. This compares with 27% that currently give this group high priority within existing budgets.

Introduction

Learning and Work Institute (L&W) was commissioned by Enginuity to explore whether changes to the tax treatment of spending on training might encourage employers in the engineering and manufacturing sectors to invest more in training and make better use of it.

Around 2.7 million people work in manufacturing in the UK, while approximately 1.8 million are employed in engineering-related services, putting the combined engineering and manufacturing workforce at an estimated 4.5 million (13% of total employment).¹ These industries have higher productivity levels and pay higher wages than the UK economy as a whole.² However, growth in manufacturing output was estimated at 0.2% in 2025,³ significantly behind growth of 1.3% across the UK economy.⁴

This report comes at an urgent time. Overall employer skills spend is down roughly one third since 2005, with engagement and investment in training among engineering and manufacturing employers in decline.⁵ This is impacting firms' ability to increase productivity, expand, and create new jobs, at a time when HM Government has identified these sectors as important for growth in the recent Industrial Strategy.⁶

More specifically the research aimed to provide insights into:

- Barriers to investment in training among employers
- Attitudes towards tax relief as an incentive for skills investment
- International examples of tax relief and what a successful approach might look like in the UK.

Methodology

The research took a mixed-method approach, comprising a review of existing evidence, an employer survey, and interviews with engineering and manufacturing firms.

Review of existing evidence

An initial review of existing evidence was undertaken to establish the current policy and research context relevant to the project. This involved reviewing a range of policy documents, reports and publications produced by organisations identified by L&W as particularly relevant to the project. The review examined evidence on:

¹ ONS (2025) [Industry \(two, three and five-digit Standard Industrial Classification\)](#)

² Make UK (2025) [UK Manufacturing: The Facts 2025](#)

³ ONS (2026) [Index of Production time series](#)

⁴ Statista (2026) [UK GDP growth 2025](#)

⁵ Department for Education (2025) [Employer skills survey: 2024](#)

⁶ Department for Business and Trade (2025) [The UK's Modern Industrial Strategy 2025](#)

- Challenges faced by the UK engineering and manufacturing sectors
- Barriers to investment in skills faced by UK engineering and manufacturing employers
- Examples of tax relief used to incentivise investment in skills and training globally.

The review focused on identifying key findings, recurring themes, and evidence gaps requiring further investigation. Information from each source was recorded in a matrix to enable comparison across studies. This provided a foundation for the subsequent research and helped to inform the areas explored through the employer survey and qualitative interviews.

As most sources were identified in advance rather than through a systematic search of the wider literature, this stage of the research should be understood as a review of existing evidence rather than a comprehensive literature review.

Employer survey

A total of 251 UK-based engineering and manufacturing employers were surveyed on:

- Skills shortages and challenges associated with investment in training
- Current and future priorities for training budgets
- Perceptions of tax-based incentives to spending more on skills and training.

SIC codes were used to identify and reach firms in these sectors. The survey was sent to HR leaders and senior managers. Roughly two thirds of respondents (67% or 168) were SMEs. This is lower than the proportion of SMEs in the engineering and manufacturing sectors across the UK, which stands at roughly 90%. The intention was to create a large enough sample size of smaller and larger employers to compare differences in responses to the survey, rather than achieving a representative sample of the engineering and manufacturing sectors. The survey was conducted online by an independent market research agency in April 2026.

Qualitative interviews

Semi-structured interviews were conducted with ten engineering and manufacturing employers, including eight SMEs and two large employers.⁷ Participants were recruited through Enginuity's employer network and were predominantly in CEO or Director roles. Interviews explored day-to-day experiences of skills gaps, decision making and investment in training, and attitudes towards tax relief. Interviews were conducted online during April and May 2026.

⁷ Organisations with between 1 and 249 employees are considered SMEs. Those with 250 or more employees are considered large employers.

Chapter 1: Engineering and manufacturing sectors can drive UK growth but face a range of challenges

This chapter presents findings from a review of existing literature. It explores the Government's ambitions for engineering and manufacturing sectors, and challenges limiting competitiveness, most notably on skills.

Key statistics:

- More than four in five (84%) additional employees in priority occupations in advanced manufacturing are projected to require qualifications at level 4 and above
- British manufacturing workers have access to 47% fewer machines, tools and technologies than workers in similar economies
- Three quarters (75%) manufacturing employers identify skills shortages as the biggest barrier to growth
- Less than half (48%) of employees in manufacturing received training in the last twelve months, the lowest proportion in any sector
- The annual cost of skills related challenges for engineering and manufacturing sectors has been estimated at £5.2 billion, with a loss of up to 10% of GVA for SMEs.

Engineering and manufacturing sectors are critical to UK growth prospects, clean energy expansion, and defence capabilities

Engineering and manufacturing sectors have been identified by HM Government as vital to unlocking higher growth and prosperity across UK nations and regions. The UK's Modern Industrial Strategy 2025 set the goal for the UK to become a global leader in advanced manufacturing.⁸ This is supported by a 10-year plan aiming to consolidate and build upon UK strengths, boost investment, and improve economic resilience, with the National Wealth Fund playing a key role. This has been further underpinned by the Advanced Manufacturing Sector Plan, with policy measures aiming to support frontier industries, give businesses long-term stability, and help grow and modernise the manufacturing skills base.⁹

Backing engineering and manufacturing firms is also recognised as critical to wider national priorities. The Clean Energy Sector Plan frames the energy transition as a major industrial and engineering opportunity that can create highly skilled jobs and support long-term economic growth.¹⁰ Engineering and manufacturing capacity is positioned as a strategic enabler to the UK's clean energy infrastructure, with the

⁸ Department for Business and Trade (2025) [The UK's Modern Industrial Strategy 2025](#)

⁹ Department for Business and Trade (2025) [Advanced Manufacturing Sector Plan](#)

¹⁰ Department for Business and Trade (2025) [Clean Energy Industries Sector Plan](#)

domestic production of critical technologies making the UK less reliant on imports in an uncertain world and allowing for strong supply chains. The Clean Energy Jobs Plan references the importance of engineering roles and mechanical technicians, with shortages in these areas described as a risk to clean energy deployment.¹¹

The UK's Strategic Defence Review also treats engineering and manufacturing capabilities as core national assets, essential to military deterrence, war fighting readiness, and the jobs and prosperity dividend of increasing investment in defence.¹² In response, the Manufacturing Technology Centre has proposed piloting a defence growth zone in the Midlands to test the infrastructure and skills pathways needed to scale capacity rapidly.¹³

The importance of engineering and manufacturing to the goals of growth, net zero, and defence are also recognised at a regional level. The West Midlands is the UK's largest manufacturing region by GVA and output in terms of manufactured goods.¹⁴ The West Midlands Combined Authority's regional growth plan highlights the region's strength in electric vehicle (EV) manufacturing, battery production, and transport engineering,¹⁵ and aims to leverage these strengths to support economic development. The North East Mayoral Combined Authority Growth Plan prioritises offshore wind manufacturing, highlighting existing strengths in turbine blade production.¹⁶ Meanwhile, Greater Manchester frames engineering and manufacturing as core to the region's industrial identity, clean energy ambitions, and flagship innovation cluster focusing on graphene, composites and high-performance materials.¹⁷ A number of Local Skills Improvement Plans also emphasise the importance of engineering and manufacturing skills in supporting local economies to thrive, spanning Cumbria, Warwickshire, Hampshire and Solent, and Greater Devon.¹⁸

Local leadership is likely to become more important in delivering these priorities. The Cabinet Office has set out ambitions to 'rewire the state' and empower local leaders to drive growth, create jobs and attract investment that speak to the strength of regions.¹⁹

However, despite these opportunities, there are a number of challenges acting as a brake on the potential of engineering and manufacturing sectors to support and maximise UK growth.

¹¹ Department for Energy Security and Net Zero (2025) [Clean energy jobs boom to bring thousands of new jobs](#)

¹² Ministry of Defence (2025) [The Strategic Defence Review 2025](#)

¹³ MTC (2025) [Unlocking Economic Growth Through National Security](#)

¹⁴ Project Made (2026) [Home - Project Made](#)

¹⁵ West Midlands Combined Authority (2025) [West Midlands Growth Plan](#)

¹⁶ North East Mayoral Strategic Authority (2025) [Local Growth Plan](#)

¹⁷ Greater Manchester Combined Authority (2026) [Greater Manchester Local Growth Plan](#)

¹⁸ Skills England (2026) [Local Skills Improvement Plans](#)

¹⁹ Cabinet Office (2026) [Rewiring the State – Cabinet Statement](#)

Levels of investment, technology adoption, and access to skills are all impacting competitiveness

Capital expenditure in manufacturing has been broadly flat in real terms for the last decade.²⁰ Make UK and others have argued that high energy costs, alongside an unstable policy and funding environment, are acting as a structural drag on investment. Both areas are addressed in the Government's Industrial Strategy and Sector Plan.²¹ The Institute for Public Policy Research (IPPR) have pointed to the UK lagging behind other countries on capital investment and technology adoption, with British manufacturing workers having access to 47% fewer machines, tools and technologies than workers in similar economies.²² In particular, the UK has far fewer industrial robots than Germany, Denmark, South Korea, Singapore, and the US.²³

The Organisation for Economic Co-operation and Development (OECD) have highlighted technology adoption as a particular challenge among UK SMEs, with a heavy reliance on peer learning, and a lack of technical skills and management capabilities offered as major factors.²⁴ Skills utilisation and technology adoption are of course two sides of the same coin. Technology and machinery require staffing and maintaining, as well as integrating, embedding, and deploying within the wider manufacturing processes. The Royal Academy of Engineering has pointed to the importance of technician roles in this regard.²⁵ However, the UK has a longstanding shortage of higher technical qualification uptake and skills needed for these roles,²⁶ skills that contribute greatly to firms' absorptive capacity for new technologies.²⁷

Engineering and manufacturing firms report a range of challenges when it comes to accessing and developing skills, with marked consequences. These include attracting people to work in the sector and ensuring that workers have the skills needed to thrive in modern production environments. Over one third (34%) of vacancies are reported as being affected by skills shortages, with over nine in ten of these (92%) related at least in part to a lack of technical skills.²⁸ A survey of SMEs in engineering and manufacturing sectors conducted by Enginuity found 36% were experiencing skills gaps and 35% reported skills shortages.²⁹

²⁰ ONS (2024) [Capital expenditure estimates, by industry, sector and sizeband](#)

²¹ Make UK (2026) [Manufacturing Outlook 2026 Q2](#)

²² IPPR (2026) [Revealed: UK business investment second lowest in G7](#)

²³ MTC (2026) [Accelerating UK Robotics Adoption](#)

²⁴ OECD (2026) [Full Report: SME Technology Adoption in the United Kingdom](#)

²⁵ Royal Academy of Engineering (2023) [Engineering skills for the workforce](#)

²⁶ IFS (2022) [The missing middle of higher technical learners](#)

²⁷ Mason, G., Rincon-Aznar, A., & Venturini, F. (2020). [Which skills contribute most to absorptive capacity, innovation and productivity performance? Evidence from the US and Western Europe](#). Economics of Innovation and New Technology.

²⁸ Department for Education (2025) [Employer skills survey: 2024](#)

²⁹ Enginuity (2026) [Mind the Gap | Engineering & manufacturing skills report](#)

Skilled labour shortages are reported by employers as a major constraint on output and investment,³⁰ innovation, workforce development,³¹ as well as competitiveness.³² One half (50%) of manufacturers report skills shortages as the primary barrier to adoption of AI technology into their workforce, creating a growing unmet demand for digital, data and technology related skills across engineering and manufacturing sectors.³³ Three quarters (75%) of respondents to a survey of manufacturing employers conducted by *The Manufacturer* identified skills shortages as the biggest barrier to growth.³⁴ Enginuity put the annual cost of skills related challenges for the engineering and manufacturing sectors at £5.2 billion, with a loss of up to 10% GVA for SMEs.³⁵

Low and falling levels of engagement and investment in training shown by the Employer Skills Survey (ESS) may be contributing to these challenges. The survey found 51% of manufacturing employers had provided training in the previous 12 months, compared with 59% of all UK employers, making manufacturing one of the three least likely sectors to train staff.³⁶ Equally, the survey shows just 48% of employees in manufacturing received training during the year, compared with 63% of employees across the UK economy, giving manufacturing the lowest proportion of staff trained of any sector. Training investment in manufacturing remains below the UK average. Employers spend less per employee (£1,210 compared with £1,420 nationally), less per trainee (£2,030 compared with £2,330), and provide fewer training days per employee (5.1 compared with 6.4). Overall annual training expenditure in the sector totals £5.3 billion, putting manufacturing mid table among major industries.³⁷

Ramping up investment in training among engineering and manufacturing firms is particularly vital, not just to increase technology adoption and productivity, but also in view of changes in the economy and labour market. While the manufacturing sector is projected to see an overall decline in employment demand, replacement demand (that is, people needed to replace workers who retire or leave the sector) is substantial. For example, while current employment levels in skilled metals, electrical, and electronic trades are anticipated to decline by 72,000 between 2020 and 2035, nearly 340,000 workers will still be required to replace those leaving the workforce.³⁸ This is the result of an ageing workforce within engineering and manufacturing over the last 20 years. The proportion of those employed in manufacturing aged between 56 and 64 increased from 13% to 18% between 2005 and 2025.³⁹ Previous L&W research has

³⁰ Make UK (2026) [The Shape of British Industry](#)

³¹ CBI (2025) [UK manufacturing struggles to regain momentum as cost pressures mount and orders remain weak](#)

³² Make UK and PWC (2023) [Cost, Competitiveness and Confidence](#)

³³ Make UK (2026) [AI, Skills and the Future of the UK Manufacturing Sector](#)

³⁴ The Manufacturer (2024) [TM-Barclays-NowHiring-SkillsReport2024.pdf](#)

³⁵ Enginuity (2026) [Mind the Gap | Engineering & manufacturing skills report](#)

³⁶ In the Employer Skills Survey, engineering is not listed as a separate sector under SIC codes and is only included in occupational classifications (SOC codes) across multiple sectors.

³⁷ Department for Education (2025) [Employer skills survey: 2024](#)

³⁸ Department for Education (2023) [Labour market and skills projections: 2020 to 2035](#)

³⁹ [Official Census and Labour Market Statistics](#)

highlighted that the majority of young people say they are not interested in a career in manufacturing,⁴⁰ while recent polling from Enginuity shows that fewer than four in ten (37%) of engineering and manufacturing SMEs are confident that they can recruit in sufficient numbers over the next three to five years.⁴¹

Skills England's *Advanced Manufacturing Sector Skills Needs Assessment*, identifies a potential requirement for 47,000 new workers by 2035, as well as 101,000 replacement workers.⁴² A striking 84% of new roles in advanced manufacturing are also anticipated to require qualifications at level 4 and above (higher education level).⁴³ Growth in demand for skills at intermediate and higher levels, changing job content due to technological change, as well as shortages in technician level roles, all point towards the need to ramp up the pace and scale of upskilling within engineering and manufacturing sectors, particularly with 80% of the 2035 workforce already outside compulsory education.⁴⁴

The next chapter seeks to dig deeper into where skills shortages are pinching most for engineering and manufacturing firms. It also considers the factors limiting training investment, how training budgets are currently spent, and what skills and jobs employers say they would target if training budgets were bigger.

⁴⁰ Learning and Work Institute (2023) [Manufacturing Excellence](#)

⁴¹ Enginuity (2026) [SME Snapshot](#)

⁴² Skills England (2026) [Sector Skills Needs Assessment – Advanced Manufacturing](#)

⁴³ Ibid

⁴⁴ Learning and Work Institute (2025) [No train no gain](#)

Chapter 2: Firms see training as business critical, but need additional support to do more

This chapter presents findings from survey analysis, a review of existing literature, and interviews with employers. It explores the extent to which firms are experiencing skills shortages and how they are using their training budgets to respond.

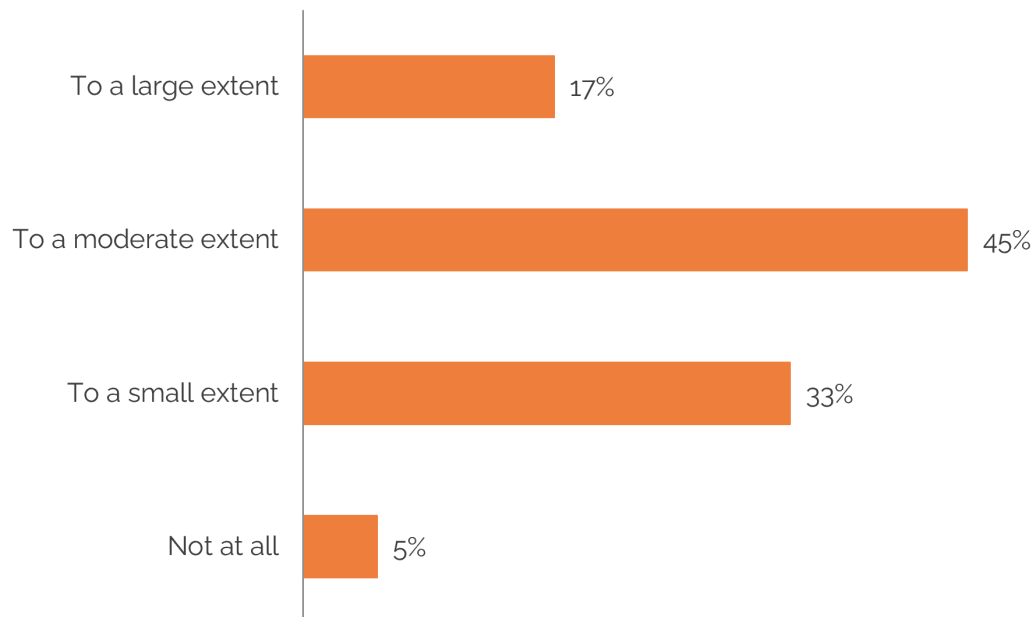
Key statistics:

- Over four in five (82%) of engineering and manufacturing firms surveyed report a shortage of 'technical or job specific' skills
- More than two thirds (68%) of firms surveyed say 'technical or job specific skills' and 'technical specialists' are prioritised within existing training budgets
- The cost of training (76%), the quality of training provision locally (56%), and the lack of available training provision locally (54%) are all commonly reported by firms as limiting their investment in skills
- Labour costs (74%), energy costs (67%), and corporation tax (63%) are reported by firms as limiting their investment in skills
- Nine in ten (90%) engineering and manufacturing employers surveyed believe that increasing training spend would support the adoption of new technologies and ways of working, and similar proportions believe it would increase productivity (88%), improve employee satisfaction (88%), and boost business revenue and growth (88%).

Almost all engineering and manufacturing firms report experiencing skills shortages, most notably technical and digital skills

Within the employer survey for this report, skills shortages were defined as "a lack of qualified individuals in specific job roles, or a mismatch between the skills of the workforce and the demands of the job roles". Nearly all respondents (95%) reported experiencing skills shortages to some degree. Figure 1 shows that around one in six employers (17%) are experiencing shortages to a large extent, while almost one half (45%) reported a moderate extent. This compares to 13% of manufacturing employers reporting skills gaps (shortfalls in the skills of existing employees) in the ESS and 34% of vacancies being reported as being hard to fill due to lack of skills, experience or knowledge among applicants.

Figure 1: Almost all engineering and manufacturing firms (95%) are experiencing skills shortages



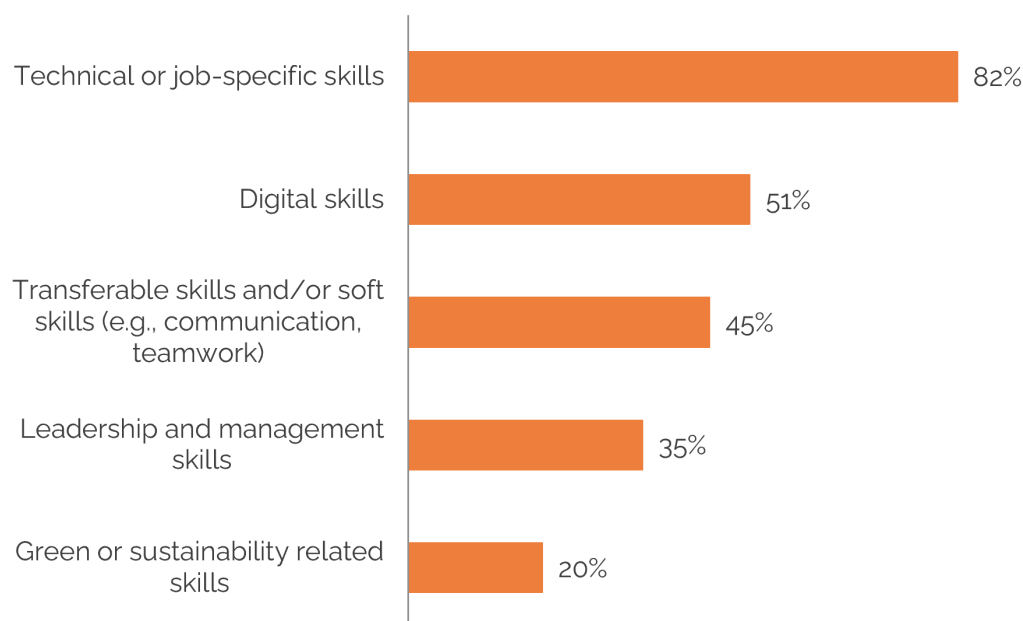
Extent of skills shortage; Base: all respondents, n=251

Shortages of technical and digital skills are reported to be particularly pronounced. Among those firms who reported shortages, 82% cited shortages of technical or job specific skills and one half (51%) identified digital skills shortages (Figure 2). Shortages of green and sustainability related skills were reported by one fifth of employers surveyed. This is broadly consistent with wider findings, with 14% of manufacturers expressing high-demand for 'green skills' in 2024,⁴⁵ and technical and managerial skills reported as essential to firms' net zero transition.⁴⁶

⁴⁵ Make UK (2025) [Make UK Industrial Strategy Skills Commission Report 2025](#)

⁴⁶ Make UK (2026) [Green Skills in Manufacturing: Building a Competitive, Future-Ready Workforce](#)

Figure 2: Over four in five firms experiencing skills shortages highlight a lack of technical or job specific skills



Areas of skills shortage; Base: respondents who reported skills shortages, n=239

Note: This question was multiple choice, the total % may be greater than a 100%

Firms say they aim to address the most pronounced shortages with existing training budgets

Firms appear to be using their existing training budgets to respond to these shortages. Two thirds of employers surveyed (68%) identify technical or job-specific skills as a high priority within existing training spend (Figure 3). Digital skills were also reported as a high priority within current training budgets by around one half of companies surveyed (52%). This is echoed in wider evidence, with the Institution of Engineering and Technology (IET) finding technical/engineering and digital specialist skills are perceived by firms to be important skills for business growth between 2025 and 2030.⁴⁷ Enginuity's *Mind the Gap* report finds 74% of engineering and manufacturing employers identify 'technical manual skills' to be among the three most important skills to their business, with 32% reporting this for digital skills.⁴⁸

Employers interviewed for this research supported these findings, reporting longstanding technical skills shortages within the sector. These shortages were identified as being concentrated in specialist job roles requiring machinery-specific expertise, rather than being generalised shortages across the wider workforce. Accessing these specialist skills was seen as being foundational to adopting and deploying new machinery within the manufacturing process, making them critical for

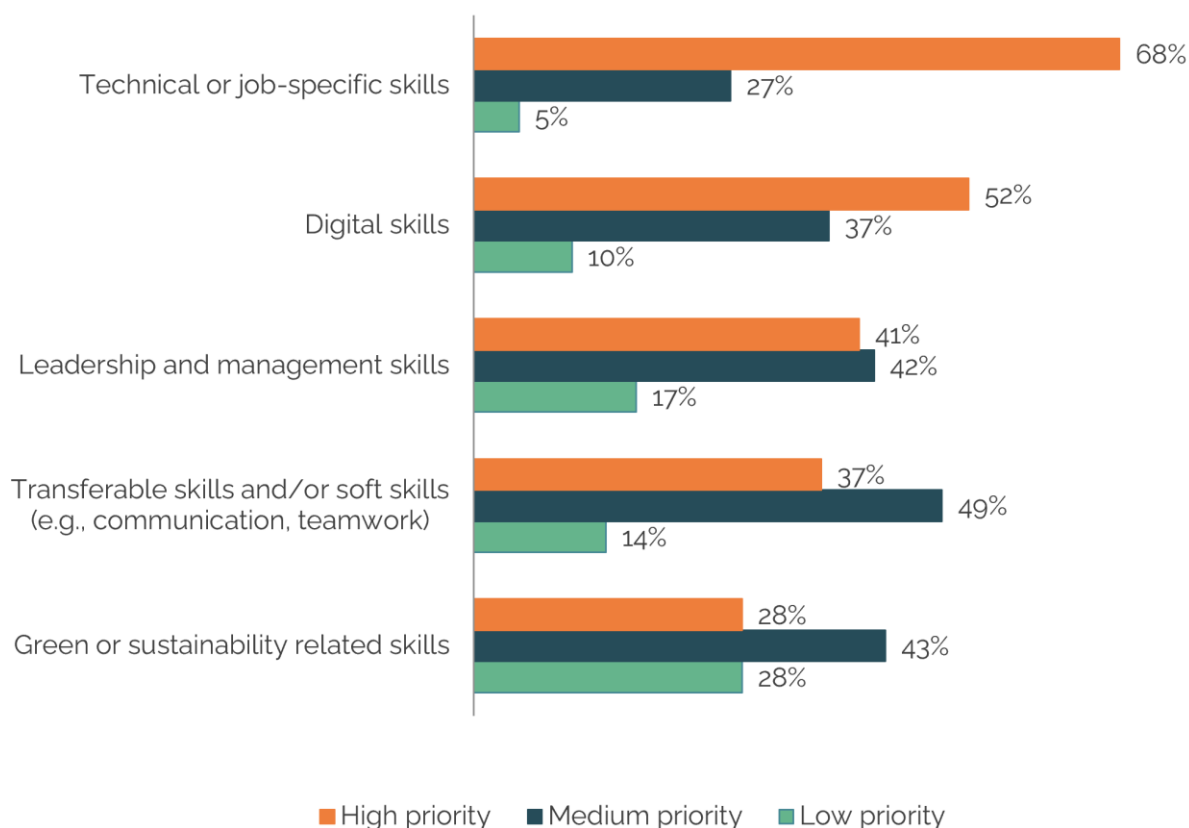
⁴⁷ IET (2025) [UK Engineering and Technology skills survey](#)

⁴⁸ Enginuity (2026) [Mind the Gap](#)

productivity and business growth, confirming findings from wider literature in the previous chapter.

A high number of firms also report prioritising leadership and management skills within existing training spend. Roughly two in five (41%) reported these skills being a high priority, and another two in five (42%) reported them as being medium priority, mirroring other research showing training being increasingly directed towards ⁴⁹ skill levels across the economy.⁵⁰

Figure 3: Technical and digital skills are prioritised in training spend



Skill types prioritised in current training spend; Base: all respondents, n=251

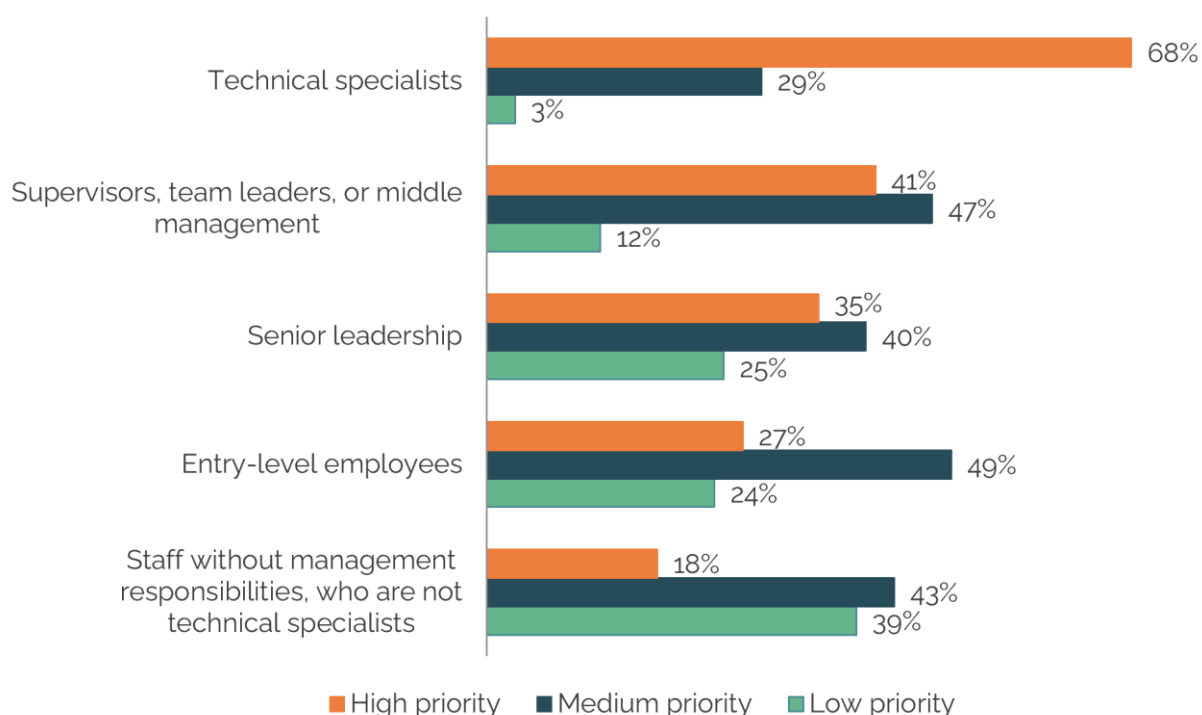
The primacy of technical skills in training budgets is also mirrored in the staff groups engineering and manufacturing firms are prioritising within existing spend. Just over two thirds (68%) of engineering and manufacturing employers surveyed identified 'technical specialists' as a 'high priority' within their existing training spend (Figure 4). This is significantly higher than all other job roles spanning entry-level employees to senior leadership and seems to confirm concerns raised in interviews about technical skills shortages being concentrated in specific job roles. Interviewees emphasised the

⁵⁰ Learning and Work Institute (2022) [Raising the bar](#)

importance of specialist expertise that cannot be automated and is important for adopting new technologies and developing new products and tools.

These findings also support longstanding concerns over the lack of higher technical skills in key UK sectors, often referred to as the 'missing middle',⁵¹ and a lack of technicians who can support successful technology adoption and deployment. However, it is a positive sign that engineering and manufacturing firms appear to be directing their current (albeit falling) skills investment towards confronting this challenge.

Figure 4: Technical specialists are the highest training priority



Staff groups prioritised in current training spend; Base: all respondents, n=251

Levels of investment in skills and training are mixed

Evidence on levels of training expenditure by engineering and manufacturing employers appears uneven. For the sector defined as 'Manufacturing' in the ESS, total training expenditure (in 2024 prices) contracted from £4.35 billion to £3.30 billion between 2017 and 2024. Levels of investment per trainee fell from £3,720 to £2,920 over the same period, while the level of investment per existing employee declined from £1,810 to £1,410.⁵²

This contrasts with self-reported changes in training spend over the last five years in our employer survey. Just over one half (53%) of firms surveyed reported a slight

⁵¹ Learning and Work Institute (2021) [Making a market for the missing middle: Higher technical education](#)

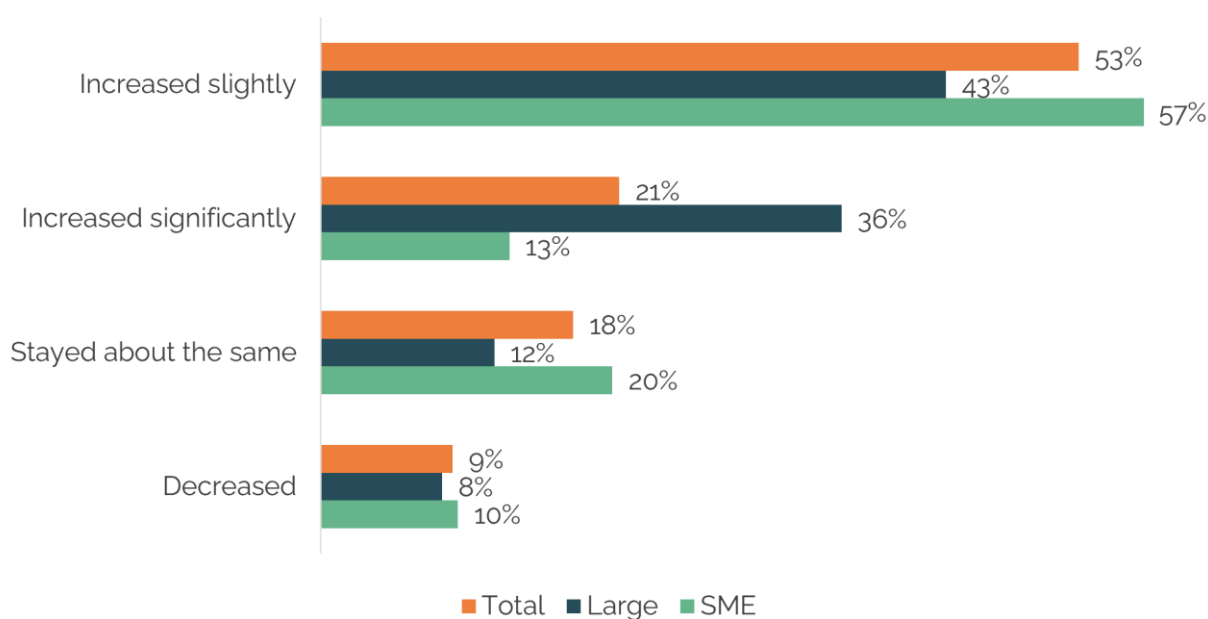
⁵² Department for Education (2025) [Employer skills survey: 2024](#)

increase in training spend over the last five years (Figure 5), while roughly one fifth (21%) reported significant increases. There could be a range of reasons for this discrepancy, but the ESS has a larger sample and takes a more in depth look at investment. Our employer survey should be viewed as a snapshot of patterns and attitudes.

Interviewees spoke about an increasing reliance on informal in-house options such as shadowing, supervised practice, and technical instruction which carry lower direct cost than external or formal training. Employers interviewed pointed to the additional role technical specialists are often playing in leading on in-house training, particularly in SMEs, providing another reason to prioritise them within existing skills budgets. While this might deliver what employers need for a lower cost, a lack of accreditation can make it harder for workers to demonstrate their skills and progress in the labour market, and may also create challenges for employers when recruiting.

In our employer survey, large firms were nearly three times as likely as SMEs to report a significant increase in skills spending (36% compared to 13%). This pattern fits with the ESS finding that training spend in large firms has fallen by less than in small firms. This may reflect several factors, including the less financial leeway and resilience that SMEs can often have in a tough business environment, and challenges around releasing staff from a small workforce to engage in training. A recent Industrial Strategy Advisory Council report also highlighted the greater challenges SMEs can face in navigating and engaging with skills providers. Smaller businesses are often less able to identify priority skills needs, assess training options, and access available support, making them less likely to engage with the skills system.⁵³

Figure 5: Large firms are nearly three times more likely than SMEs to say they have significantly increased their training spend



⁵³ Industrial Strategy Advisory Council (2026) [Increasing employer investment in skills](#)

Change in training spend over past 5 years; Base: all respondents, n=251; SME n=168; Large n=83. Figures relating to large employers should be treated with caution due to the relatively small sample size.

Challenges in the skills system, investment disincentives, and a range of commercial challenges are said to be limiting spending on training

Our research indicates that factors related to the skills system, as well as commercial and operating factors, are limiting training spend among engineering and manufacturing companies of all sizes.

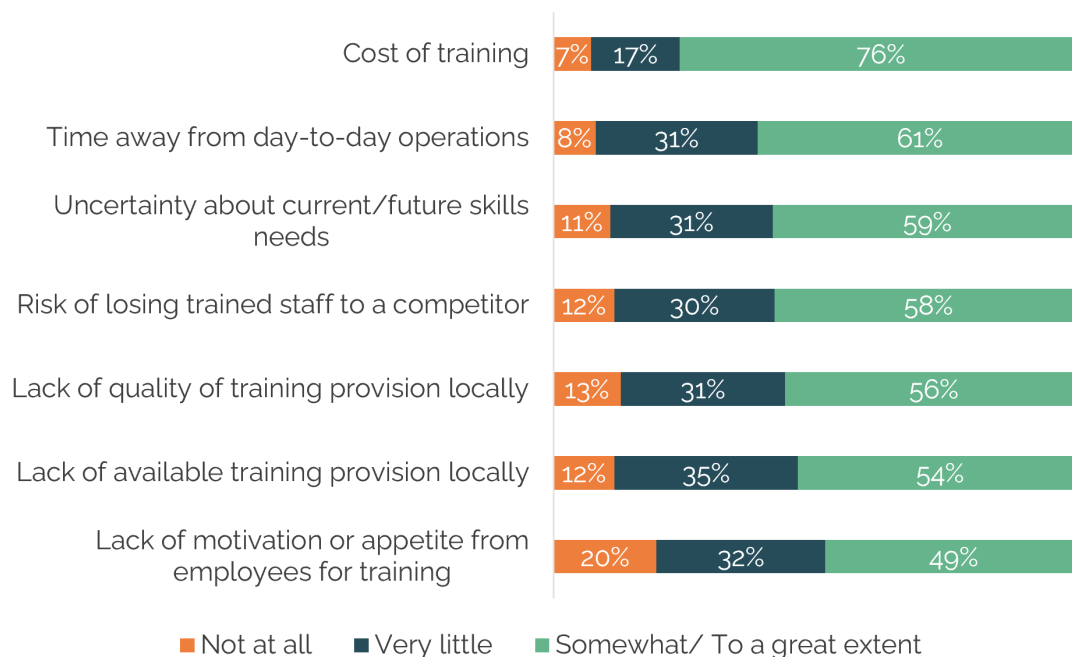
On factors related to skills and training, employers surveyed reported that the cost of training (76%), the quality of training provision locally (56%), and the lack of available training provision locally (54%) are limiting their training spend 'somewhat' or 'to a great extent' (Figure 6). Firms also cited a range of other challenges that are limiting spending on training, including staff time away from day-to-day operations (61%), uncertainty about skills needs (59%), and the risk of losing trained staff to a competitor (58%).

Concerns about the time needed for staff to undertake training is echoed in wider evidence from both Enginuity⁵⁴ and IET, which the latter finding that among 1,316 employers surveyed, 50% identified a lack of time to release employees for training as a most significant barrier to upskilling.⁵⁵ Interviews for this research highlighted that time away from day-to-day operations is a particular challenge for SMEs, both in terms of releasing staff for external training and moving technical staff away from their immediate role to deliver and oversee in-house training. This is creating a tension between meeting immediate production demands and investing in longer term skills development.

⁵⁴ Enginuity (2026) [Mind the Gap](#)

⁵⁵ IET (2025) [UK Engineering and Technology skills survey](#)

Figure 6: Cost of training is the biggest barrier to skills investment



Factors limiting training spend; Base: all respondents, n=251

This challenge could be eased to an extent through greater flexibility in training provision, though this could add a challenge to training providers to deliver. For example, shorter and modular forms of training can better allow colleagues to learn around regular work commitments, limiting the time needed away from the coalface and potentially supporting more effective skills transfer between training and day-to-day operations. There are a limited number of new Apprenticeship Units available in engineering and manufacturing related roles and a commitment to incorporate Higher Technical Qualifications within the Lifelong Learning Entitlement. However, polling from Enginuity finds that only 11% of engineering and manufacturing SMEs believe new Apprenticeship Units would fill current skills gaps, whilst just one quarter (26%) said they would be likely to use them.⁵⁶ For now, full apprenticeships and qualifications remain the main focus of public funding aiming to support depth of learning and portability of skills across the labour market.

Interviews also echoed survey findings on a perceived lack of available quality training provision, with participants highlighting out-of-date equipment and teaching expertise alongside insufficient connections to industry to remedy these factors. Employers interviewed also highlighted pressures on training providers to broaden provision to maximise student numbers and reflect common requirements across industry, putting greater onus on employers to develop technical expertise internally. Of course, connections between employers and training providers require engagement from both

⁵⁶ Enginuity (2026) [SME Snapshot](#)

to be formed and maintained. Reflections on the quality of training are also likely feeding into firms' conclusions on the cost of training, and their assessment of value for money.

Previous L&W research also highlights that training is associated with job mobility, with individuals more likely to change occupation after receiving training from their employer.⁵⁷ This has the potential to act as a disincentive for firms to invest in skills and training, although it could also give them a chance to promote internally depending on their size and structure. While the evidence on poaching is mixed, concerns among employers are very real, and Skills England note that is particularly pronounced among SMEs.⁵⁸ The resultant employer behaviours both reflect and reinforce an environment where skills shortages are pronounced. A shortage of skills will make a skilled person more desirable in an open labour market. However, failure by firms to invest will continue to undermine the overall availability of skilled talent, increasing the attractiveness of candidates who do have in-demand skills.

Beyond the challenges outlined above, wider commercial factors are also reported to be having an impact. Figure 7 shows that nearly three quarters of firms (74%) reported that labour costs were limiting their skills spend 'somewhat' or 'to a great extent'. Employers participating in interviews argued that high labour costs were resulting in them being more likely to higher older more experienced workers, as hiring younger less experienced workers would also require further expenditure on upskilling. This is despite the Low Pay Commission finding very little effects of minimum wage rises on employment overall or for younger people to date (this may of course be changing with recent rises in the minimum wage and employer's National Insurance).⁵⁹

Just over two thirds (67%) of employers surveyed reported that energy costs were a limitation, an area where the *Advanced Manufacturing Sector Plan* acknowledges the UK compares less well with other countries.⁶⁰ The tax burden was also cited as a limiting factor on firms' ability to invest in training, covering Corporation Tax (63%), Business Rates (62%) and National Insurance Contributions (NICs) (56%). Broadly defined 'financial constraints' were also the most commonly reported factor preventing engineering and manufacturing SMEs investing in skills, coming above the availability of candidates and the administrative or time burden of training.⁶¹

⁵⁷ Learning and Work Institute (2025) [No train no gain](#)

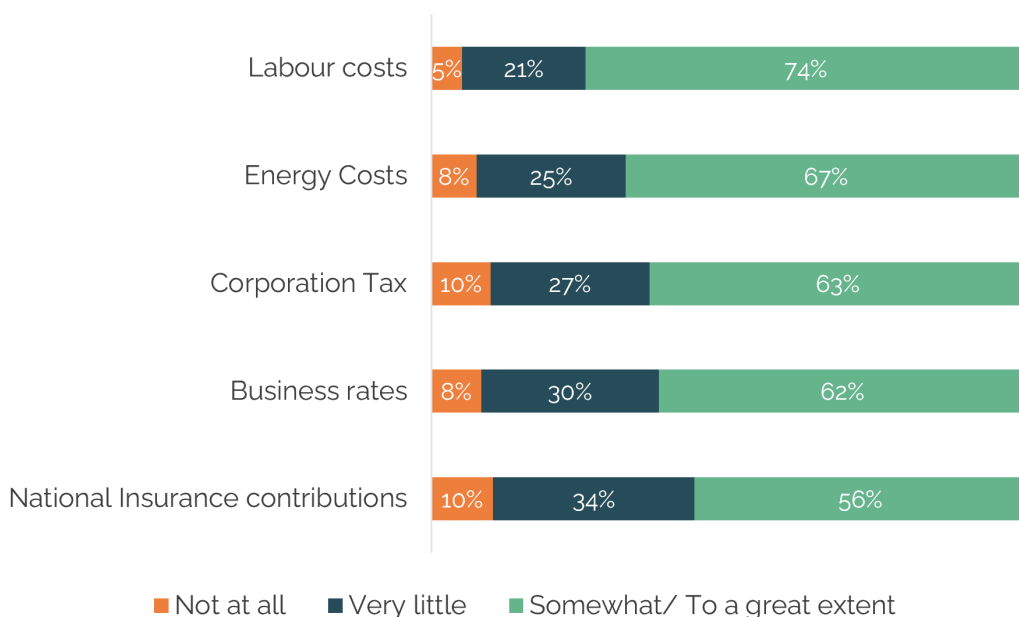
⁵⁸ Skills England (2026) [Skills England annual skills report 2026](#)

⁵⁹ GOV.UK (2025) [Low Pay Commission Report 2025](#)

⁶⁰ Department for Business and Trade (2025) [Advanced Manufacturing Sector Plan - GOV.UK](#)

⁶¹ Enginuity (2026) [SME Snapshot](#)

Figure 7: Labour cost is the main barrier cited by employers as affecting organisational spending on skills and training



Cost factors limiting training spend; Base: all respondents, n=251

This is particularly relevant in view of the findings of the forthcoming chapter, which explores how tax relief could enable firms to expand training budgets and boost investment in skills. Overall, however, these findings show a clear interrelationship between trading conditions and skills spend. With the UK experiencing sluggish growth for the last 20 years, it is a further reminder that declining investment in skills and training is a result as well as a cause of poor economic conditions.

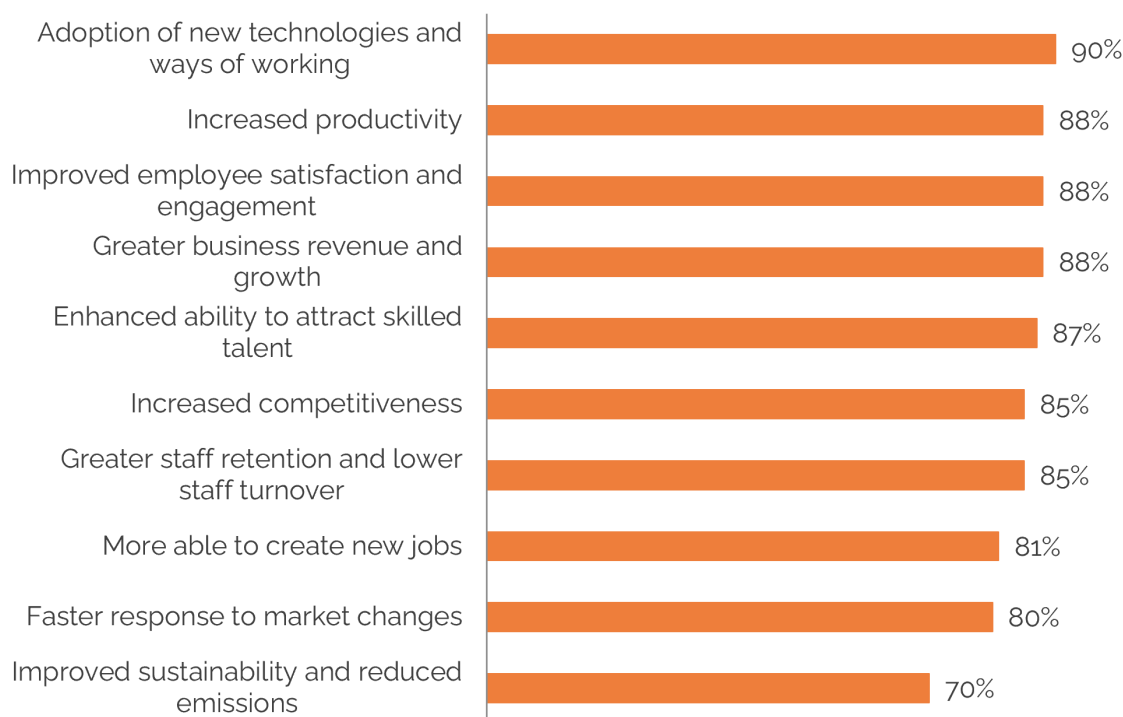
This is despite firms believing that additional training investment could bring a range of business benefits

Engineering and manufacturing employers say they believe additional training investment could bring a wide range of business benefits (Figure 8). Nine in ten employers surveyed believe additional training investment would allow for the adoption of new technologies and ways of working. This is closely followed by increased productivity (88%), improved employee satisfaction (88%), greater business revenue and growth (88%), and an enhanced ability to attract new talent (87%). Despite citing concerns about the risk of poaching, 85% of surveyed employers identified greater staff retention and lower staff turnover as potential benefits of investment in training.

SMEs interviewed suggested that they may have the most to gain from increased training spend, believing that larger companies are often better positioned to adopt new technologies and improve productivity. It is true that across all sectors of the

economy, the UK's productivity problem appears to be anchored in its smallest firms.⁶² However, as mentioned in the first chapter, challenges around skills, productivity and technology adoption are common across businesses of different sizes, while growing replacement demand increases the importance of boosting employee satisfaction and engagement. In this respect, engineering and manufacturing firms appear to be telling us that additional training investment is mission critical to business success, the prospects for these sectors, and the role they can play in the UK economy.

Figure 8: Firms believe additional training investment could bring a wide range of business benefits



Benefits of additional training investment; Base: respondents who said that further tax relief would be impactful, n=241

Note: This question was multiple choice, the total % may be greater than a 100%

This should be a cause for comfort and concern. On one hand it suggests that firms need little convincing of why raising skills spend is so important. On the other, and in an environment where direct spend on skills is falling, it suggests that the outlined challenges and disincentives to investment (coupled with the immediate costs), are in many instances outweighing the potential benefits on offer.

This points to the need to look at the underlying drivers of skills investment, including financial incentives, to enable companies in engineering and manufacturing sectors to invest in skills and ensure the UK economy can reap the benefits as a result. The forthcoming chapter explores employers' attitudes towards tax relief as a mode for this

⁶² SME Digital.AI (2026) [UK SME Efficiency and Automation Report 2025/26](#)

incentive and investigates whether and how tax relief might unlock increased backing for training.

Chapter 3: Tax relief could help boost investment in skills and training

This chapter draws on survey analysis, a review of existing literature, and interviews with employers to examine firms' awareness of existing tax relief initiatives and their preferences for how a new tax relief initiative might operate.

Key statistics:

- Nearly all engineering and manufacturing firms surveyed (96%) agree that further tax relief would enable them to invest more in skills and training, with over two in five (44%) strongly agreeing
- Seven in ten (71%) employers who reported that further tax relief would increase their training spend said that they would favour a model resembling the "super-deduction" on capital spending
- Nearly two thirds (65%) of firms who would favour the super-deduction model would prefer a higher rate of additional relief (50p in £1) on training for lower skilled workers only, over a lower rate of additional relief (25p in £1) on training for all workers in their organisation
- Two in five (39%) firms who would welcome further tax relief believe they could boost skills spending by 10-19% as a result, with a similar percentage (36%) believing they could increase training budgets by 20-29%
- Additional tax relief could unlock £2.2 billion in skills investment across the economy, and £138 million in the manufacturing sector.

Most firms are aware of and benefit from existing tax relief in place, and would welcome additional support

A number of influential figures and organisations have advanced the idea of additional tax relief as a method for increasing employer investment in skills and training. Make UK have called for advanced rates of relief on investment in accredited skills training for sectors and occupations identified as high priority by Skills England.⁶³ The Centre for Social Justice has recommended giving businesses a tax break at a set rate on the average salary of a young person to reduce numbers of 16- to 24-year-olds not in education, employment or training (NEET). The British Chambers of Commerce (BCC) have called on Government to explore a Skills Tax Credit to help firms invest in their existing workforce, with polling from the BCC revealing that tax-based incentives would be favoured to other modes of incentive by 58% employers.⁶⁴

⁶³ Make UK (2025) [Make UK Industrial Strategy Skills Commission Report 2025](#)

⁶⁴ British Chambers of Commerce (2026) [Delivering Growth: Upskilling the Workforce](#)

This proposal has also attracted some parliamentary support, with the House of Lords Industry and Regulators committee throwing its weight behind a Skills Tax Credit⁶⁵ following analysis from L&W suggesting the idea could unlock over £1 billion in employer investment in training.⁶⁶ This proposal was also backed by the then chair of the Education Select Committee, Rt Hon Robert Halfon MP, in debates surrounding the introduction of the Post 16 Education and Skills Bill in 2021, but was not ultimately enshrined into this or subsequent legislation.

There are already a range of existing tax reliefs in place on investment in skills and training. This includes full relief on employer's NICs for employees under 21 and apprentices under 25, as well as the ability for employers to offset 100% skills and training spend against their taxable profits. However, evidence suggests these reliefs may be having a limited effect on employer's decision making. Polling from HMRC finds only 44% of firms claiming one or more of these reliefs are aware that they are currently doing so. Less than one third report relief on NICs enable them to invest more in training, with 57% reporting that it has no direct impact on their business.⁶⁷ This would appear to be borne out by wider statistics. For example, apprenticeship starts in England among those aged under 25 have fallen from 221,000 in 2017/18 to 172,000 in 2024/25, despite the relief in place⁶⁸ Resolution Foundation analysis finds that reversing changes made to NIC thresholds for under 25s in 2024 would cost the taxpayer £1 billion but help to create just 7,000 jobs.⁶⁹ This suggests that there may be opportunities to reallocate relief currently offered through NICs to achieve a greater impact on investment and training. It also suggests that NICs might not present the best means of introducing further tax relief on skills and training.

Employers surveyed for this research were asked about their awareness of existing tax reliefs available. A majority (62%) indicated that they were aware of current tax relief on training investment (Figure 9). Of those that reported being aware, the vast majority agreed that current relief enables them to invest more in skills and training, with one quarter (24%) strongly agreeing (Figure 10). Given what we've outlined on NICs relief, we could infer that this level of positivity is rooted in backing for firms' ability to offset 100% of skills spending against their Corporation Tax bill. However, the survey did not ask for levels of awareness on each relief separately, and HMRC polling figures on NICs are not broken down by sector to capture a specific view from engineering and manufacturing.

⁶⁵ FE Week (2026) [Give employers tax relief on training, say Lords](#)

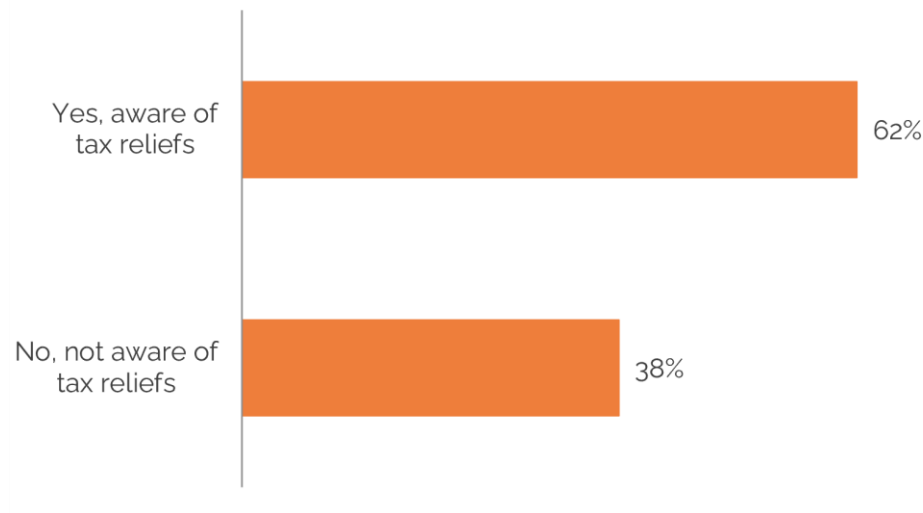
⁶⁶ Learning and Work Institute (2022) [Raising the bar: Increasing employer investment in skills](#)

⁶⁷ HM Revenue & Customs (2023) [Evaluation of employer National Insurance contributions reliefs for employees under 21 and apprentices under 25](#)

⁶⁸ House of Commons Library (2025) [Apprenticeship statistics for England](#)

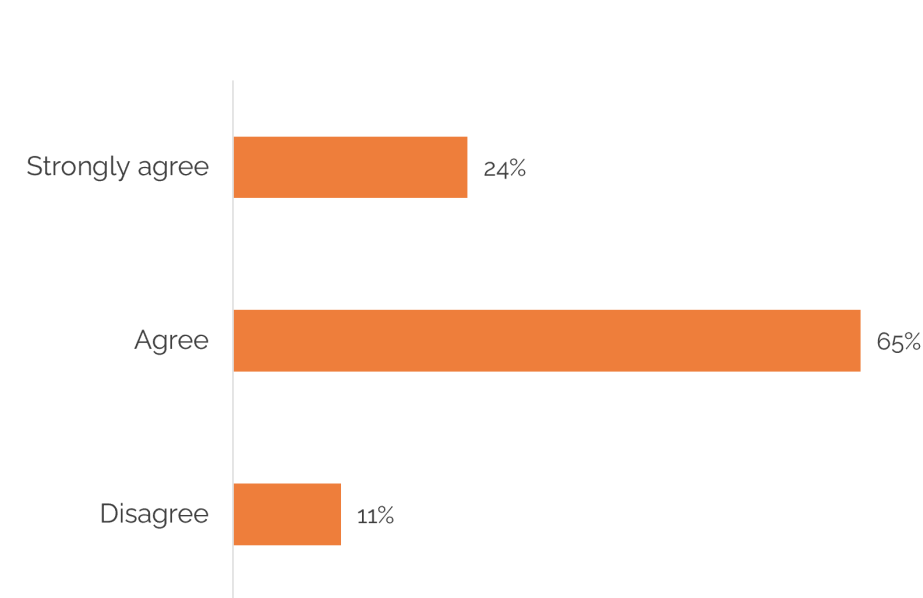
⁶⁹ Resolution Foundation (2026) [Take a chance on me](#)

Figure 9: Almost two thirds of firms were aware of current tax reliefs on training investment



Awareness of tax relief on training investment; Base: all respondents, n=251

Figure 10: Most firms aware of tax relief say it enables them to invest more in training

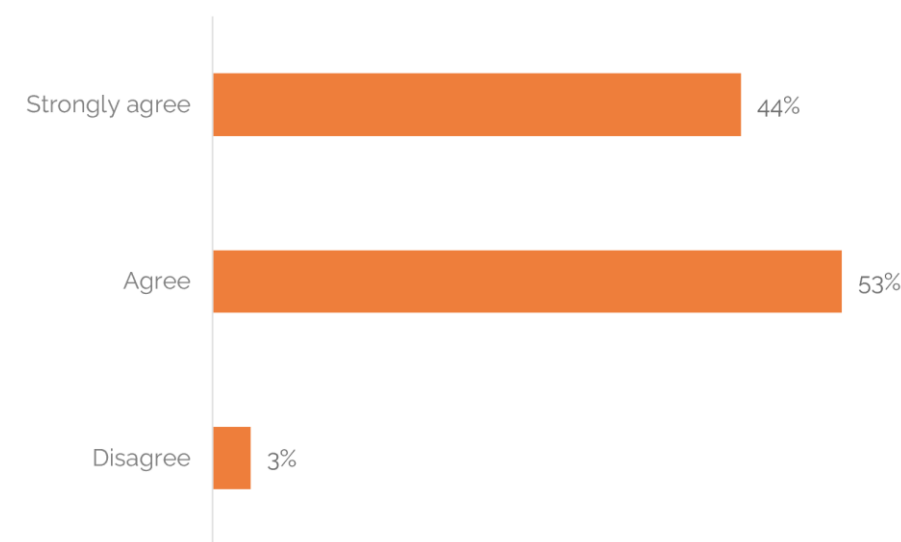


Existing tax relief enables training investment; Base: respondents who reporting being aware of tax reliefs, n=153. The 'strongly disagree' and 'don't know' categories have been suppressed because of the small number of responses. As a result, percentages shown may not sum to 100%.

Nearly all engineering and manufacturing firms surveyed (96%) said that further tax relief would enable them to invest more in skills and training, with over two in five (44%) strongly agreeing (Figure 11). With firms reporting that bigger training budgets could support technology adoption, productivity and growth at a time when figures show them cutting spending on skills, backing for additional relief suggests this measure

might help to tip the balance of incentives versus disincentives in favour of greater investment. While the effects of any policy measure cannot be guaranteed and self-reporting of more investment by firms may not materialise in every instance in practice, the high level of support among employers in engineering and manufacturing sectors is noteworthy.

Figure 11: Almost all firms agree that further tax relief would enable more training investment



Further tax relief would enable training investment; Base: all respondents, n=249

The majority of firms would favour a model providing a direct tax reduction as training investment is increased

To move beyond identifying "in-principle" support for tax relief as a mode of incentive and interrogate the benefits of different potential models, engineering and manufacturing firms were provided with two different options via the employer survey and asked which they would favour.

The first, direct tax reduction, is modelled on the "super-deduction" offered by HM Treasury between March 2021 and 2023. This sought to make UK capital allowances more competitive by allowing companies to cut their Corporation Tax bill through investment in qualifying plant and machinery assets. This functioned as a direct tax deduction, allowing firms to reduce the amount they paid to the exchequer by investing more. HMRC analysis of the super-deduction found that its greatest effect was accelerating investments, rather than increasing the total volume of investment over a sustained period.⁷⁰ This was likely owed to its time limited nature, with firms rushing to take advantage of increased allowances before the deadline, as well as the specific nature of capital investments and their tax treatment.

⁷⁰ HM Revenue and Customs (2025) [Research on the effectiveness of the super-deduction](#)

The UK has a sustained shortfall in skills and needs a sustained (not just short-term) boost to catch this up. For this reason, and to limit unintended consequences and the risk of a rush to poor quality training to meet a deadline, tax incentives for skills need to be longer term. The HMRC evaluation of the super-deduction also highlighted concerns among some firms about compliance, with businesses in some instances choosing not to invest owing to uncertainty about which assets qualified for relief.⁷¹ Any tax relief on skills and training would almost certainly be limited to accredited options, with the Government wanting to know how the money is being spent and have confidence in the value of this training within the labour market. While we can have some confidence in firms' ability to distinguish between accredited and non-accredited options (although this cannot be assumed in all cases), challenges around compliance would likely rise if some accredited options were eligible for relief, and others not.

The second option tested in the employer survey, profit uplift, is modelled on the Research and Development Expenditure Credit scheme which allows firms to add their R&D credit as income for a net benefit after tax. HMRC analysis estimates this scheme to unlocks between £2.40p and £2.70p in additional investment for every £1 spent.⁷² However, there have also been a range of challenges around definitions of R&D as firms seek to maximise their claims. This included some high-profile cases of English and Scottish football clubs use of the scheme.⁷³ This again highlights the importance of clarity when it comes to eligibility in the design of tax relief on investment in skills and training.

Among engineering and manufacturing employers who reported that further tax relief would result in increased training spend, seven in ten favoured a model providing direct tax reduction over a profit uplift (Figure 12). Firms interviewed highlighted the importance of simplicity in claiming any new tax relief, and some had the perception that this approach could best offer this. Interviewees also indicated they would support a reduction of either Corporation Tax or NICs as an incentive for more investment. This mirrors survey responses explored in the previous chapter, with Corporation Tax (63%) and NICs (56%) both raised as barriers currently limiting training spend. However, as we have outlined, wider evidence that existing NICs relief appears to be having limited effects indicates that Corporation Tax may present a better option for this form of direct relief, as per the previous super-deduction. Furthermore, changes in NICs largely flow through to changes to people's wages regardless of which form of National Insurance is being changed. That is, most of the impact of cuts to NICs is ultimately through higher take home pay for people, with smaller amounts left for firms to spend on training or other things or take as higher profits.⁷⁴

⁷¹ Ibid

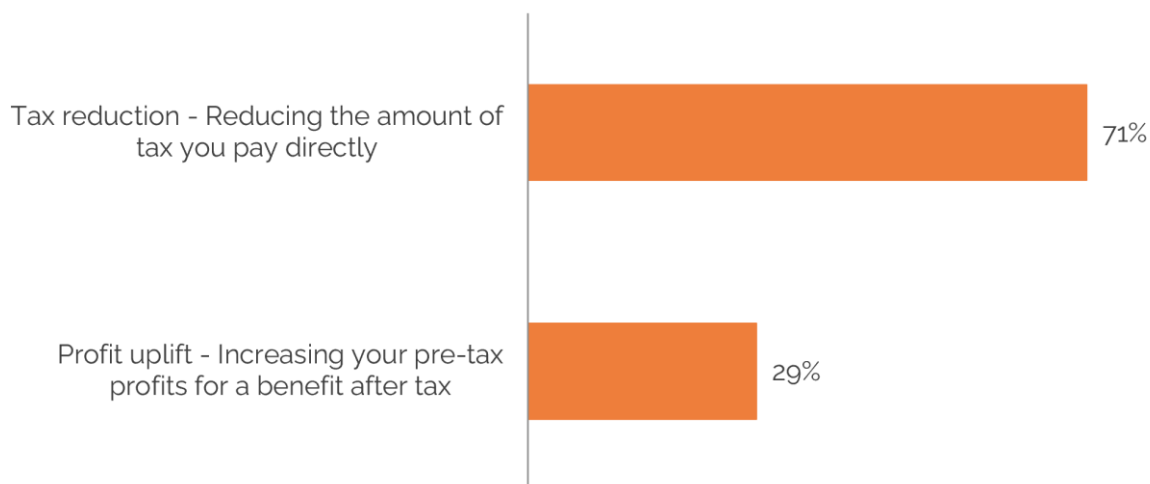
⁷² HM Revenue and Customs (2025) [Evaluation of the research and development expenditure credit](#)

⁷³ Scottish Financial News (2025) [HMRC tackles football clubs over questionable R&D tax relief](#)

⁷⁴ University of Oxford Centre for Business Taxation (2024) [Will Workers Pay The Employer National Insurance Contributions Rise?](#)

While a profit-uplift model was not as favoured among firms surveyed, employers interviewed were more positive on the operation of the existing R&D tax credit, and the potential benefits of replicating this model for training investment. For example, one participant explained that companies are already familiar with using the model and could therefore apply it to training quite easily.

Figure 12: Seven in ten firms prefer direct tax reduction over profit uplift



Preferred model for further tax relief; Base: respondents who reported that additional tax relief would result in them increasing training spend, n=241

The attractiveness and operation of either model will also relate to the profitability of each firm seeking relief. A direct reduction in Corporation Tax will not benefit a non-profitable firm, because loss making firms do not pay Corporation Tax. However, a profit-uplift or credit on the balance book could help companies making a loss to invest more in skills and training. Conversely, profitable employers with a large Corporation Tax Bill may be incentivised to bring this bill down directly and in the simplest way possible. While employers in this survey may be drawn to the option of obtaining a cash benefit in the quickest way possible, in practice, the design of any system can also aim to take the best from both worlds. For these reasons, and following feedback from interviewees, this report recommends the introduction of a Skills Tax Credit, rather than replicating a super-deduction-based approach.

Firms would welcome a higher rate of relief on training for lower skilled workers over a lower rate of relief on training for all staff

To dig deeper on whether engineering and manufacturing employers would favour a broad based or more targeted form of tax relief, survey respondents were also asked to indicate their preference for a lower rate of relief on training for all staff, or a higher rate of relief on training for lower skilled workers only. Among those who supported direct tax reduction as their preferred model, nearly two thirds (65%) favoured 50p tax relief on every £1 spent on skills and training for lower skilled workers, compared to just over

one third (35%) who favoured 25p tax relief on every £1 spent on skills and training for all workers in their organisation (Figure 13).

This suggests that tax relief offers potential in redressing inequalities in who benefits from training at work, as well as increasing total skills spend in these sectors. As outlined in the previous chapter, our survey suggests engineering and manufacturing employers are currently prioritising technical specialists in their training budgets, responding directly to pressing technical skills shortages. Just 27% of employers surveyed reported 'entry-level employees' as being a high priority within their current training budget, and only 18% reported this for 'staff without management responsibilities who are not technical specialists'. The de-prioritisation of these staff groups within current skills spending comes despite engineering and manufacturing sectors facing significant challenges that can be combatted through greater investment in younger and lower-skilled workers. That is, significant replacement demand being driven by an ageing workforce, and the need to ramp up the pace and scale of upskilling to meet growing demand for intermediate and higher-level skills.

Focusing tax relief on these specific workers could therefore allow firms to direct additional headroom created in training budgets towards those less likely to receive training currently, while also tackling these challenges head on. It could also present opportunities for engineering and manufacturing sectors to play a fuller role in tackling the crisis around NEET young people, boosting labour market participation and providing skilled employment opportunities in areas of the economy with growth potential. For these reasons, this report recommends limiting the eligibility of a Skills Tax Credit to accredited courses, qualifications, and apprenticeships up to level 5.

Figure 13: Nearly two thirds prefer a 50p-per-£1 relief targeted at lower-skilled workers

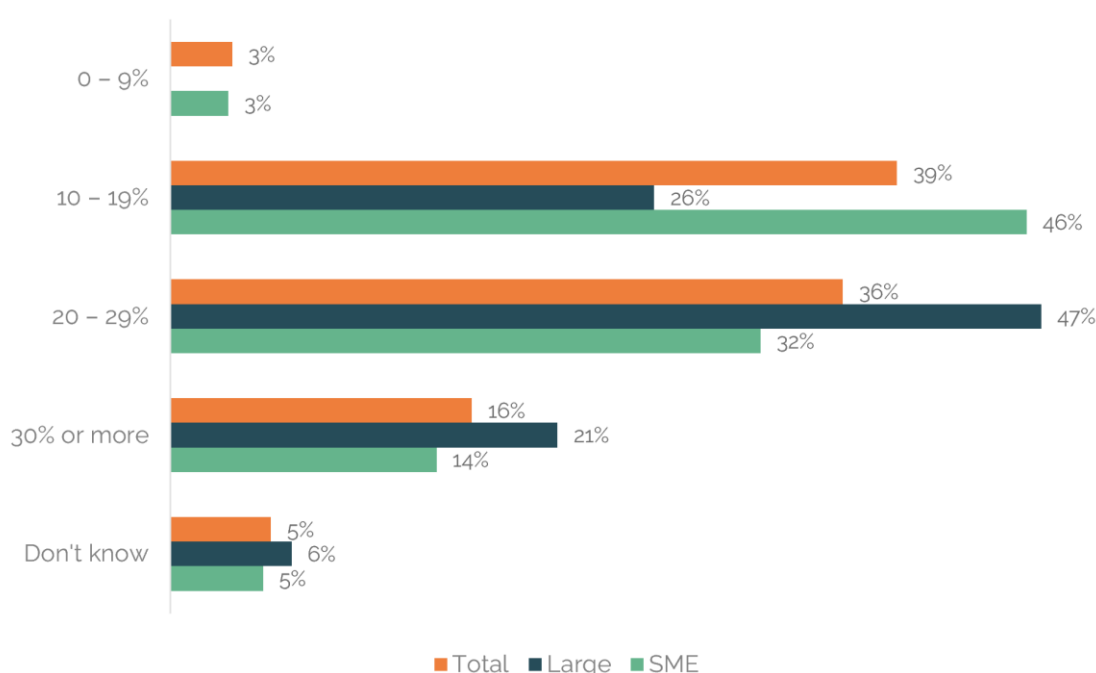


Preferred tax reduction option; Base: respondents who selected direct tax reduction as their preferred model of tax relief, n=170

Employers report that additional tax relief could unlock a substantial increase in training spend

All firms who reported that tax relief would increase their training spend were asked how much they would be able to increase their training budget by were their preferred tax relief model available. Overall, firms were most likely to indicate that they could boost skills spending by 10-19% (39%), with 20-29% as the next most commonly selected option (36%) (Figure 14). It is important to note that these are statements of intent from a survey. Whether these increases in training investment materialise in practice will depend on a range of other enabling factors discussed below.

Figure 14: Large firms would be able to increase training investment more than SMEs



Additional investment possible with preferred tax relief; Base: respondents who reported that additional tax relief would result in them increasing training spend, n=241; Large n=77, SME n=161; . The 0-9% figure for large employers has been suppressed due to low count. Figures relating to large employers should be read with caution due to the relatively small sample size.

Larger firms say that tax relief would result in bigger increases in training spend than SMEs. One fifth (21%) of large engineering and manufacturing employers indicated that they could increase training investment by more than 30% were their preferred tax relief available, compared to 14% of SMEs. While 47% of large firms suggested that they could increase skills spending by 20–29%, the same was true for less than one third (32%) of SMEs. Taken together, this shows nearly seven in ten (68%) of large engineering and manufacturing companies reporting an anticipated increase in skills investment by 20% or more. The same is true for less than one half (46%) of SMEs. The same proportion of SMEs (46%) report that they could increase their training spend by a more

modest 10-19%, compared to just one quarter (26%) of larger engineering and manufacturing employers.

This may reflect factors identified in interviews and wider literature regarding the difficulties SMEs are more likely to face in navigating and engaging with the skills system, as well as challenges around releasing staff from a small workforce to engage in training that may not be flexible to their requirements. It may also reflect larger firms' confidence and ability in calculating and capturing returns on investment, with companies of greater size often better able to audit, identify, and forecast skills needs in combination with wider strategies on recruitment or capital expenditure for example. This can also be a challenge for larger firms, with three in five (59%) respondents to the employer survey highlighting 'uncertainty about skills needs' as limiting their existing training spend.

In this regard, findings to the employer survey also serve as a reminder that fiscal measures are not a panacea for resolving all challenges and disincentives firms face around investment in skills. Any future tax relief introduced for this purpose should be set within a wider approach to improving the skills system, and giving firms the know-how and confidence to invest in line with their skills needs. This theme is explored further in the next chapter.

A Skills Tax Credit could support £2.2 billion additional annual skills investment across the economy

By using responses to the employer survey, drawing on estimates of current training spend, and interrogating the impact of the R&D tax credit, this report attempts to offer a rough estimate on how much additional investment could be unlocked through a Skills Tax Credit, both within and beyond the manufacturing sector.

The 2024 ESS estimates that employers spent £53 billion on on-the-job and off-the-job training. Of this, £3.8 billion was spent on fees to external training providers and £3.5 billion on onsite and offsite training centres. This is the type of training that is most likely to be accredited. As covered, any tax relief on training spend would likely be limited to accredited options, as the Government would want to know how money is being spent and to have confidence in the value of this training within the labour market. In this analysis we assume that all fees to external training providers would be eligible, alongside half of what is spent on training centres. This gives us a total of £5.5 billion current skills investment that is eligible for tax relief. The analysis also assumes that the same proportion of total spending in manufacturing would be eligible, giving us a figure of £345 million eligible spend for this sector.

On the amount of relief offered, we follow the current threshold in the R&D tax credit of 20p for every £1 spent. This equates to a 15% benefit for profit making firms and a 16% benefit for loss making firms, with the assumption that 43% of claims would be from loss making firms in line with the 2023-24 claims on the R&D tax credit. We estimate that additional spend will be between 24% and 40%. The first percentage is broadly in

line with our survey responses, as well as the additional spending by SMEs as a result of the R&D tax credit. The second percentage was cited by 16% of employers in our survey, and sits at the top end estimate on the impact of the R&D tax credit for large firms. These percentages could be higher if firms begin to spend a lower proportion of their total skills budget on unaccredited training treated less favourably from a tax perspective. Indeed, we saw this type of behaviour with the introduction of the Apprenticeship Levy.

On the basis of this analysis, we estimate that a Skills Tax Credit could increase spending on accredited skills and training by £1.3 billion to £2.2 billion, of which between £83 million and £138 million would be in manufacturing. The direct cost to the taxpayer would be around £900 million, although this excludes additional tax revenue that would be raised if more skills spending resulted in economic growth, something firms surveyed would be confident of.

Excluding any expectations on economic growth, roughly 70% to 80% of taxpayer costs would be on training that would have happened anyway, or deadweight. One method of minimising deadweight would be to set a threshold at which investment becomes eligible for relief. This could perhaps be based on a proportion of payroll, similar to the Growth and Skills Levy. Another method of off-setting costs could be by increasing taxes or cutting reliefs elsewhere. For example, this report has highlighted that NICs relief on employees under 21 and apprentices under 25 is likely having a limited effect on employment levels for these groups.

Chapter 4: Fiscal measures are not a panacea and must be set within a wider approach to improving the skills system

This chapter draws on survey analysis, a review of existing literature, and interviews with employers to examine firms' preferences for training provision, and additional skills expenditure made possible through tax relief. It also explores the lessons that can be drawn from international approaches to implementing tax relief on skills and training.

Key statistics:

- Employers surveyed were most likely to select industry or professional bodies (64%) as one of the three providers best placed to delivery training for their organisation
- Just one in five (20%) engineering and manufacturing firms place Further Education colleges among their top three training providers, with a roughly one quarter (24%) reporting this for universities
- Over two in five (42%) of firms say they would give high priority to entry level employees in skills spending if their training budgets were bigger. This compares to 27% giving high priority to these employees within existing budgets.

Strengthening collaboration between firms and further and higher education providers is vital to reaping the training dividend

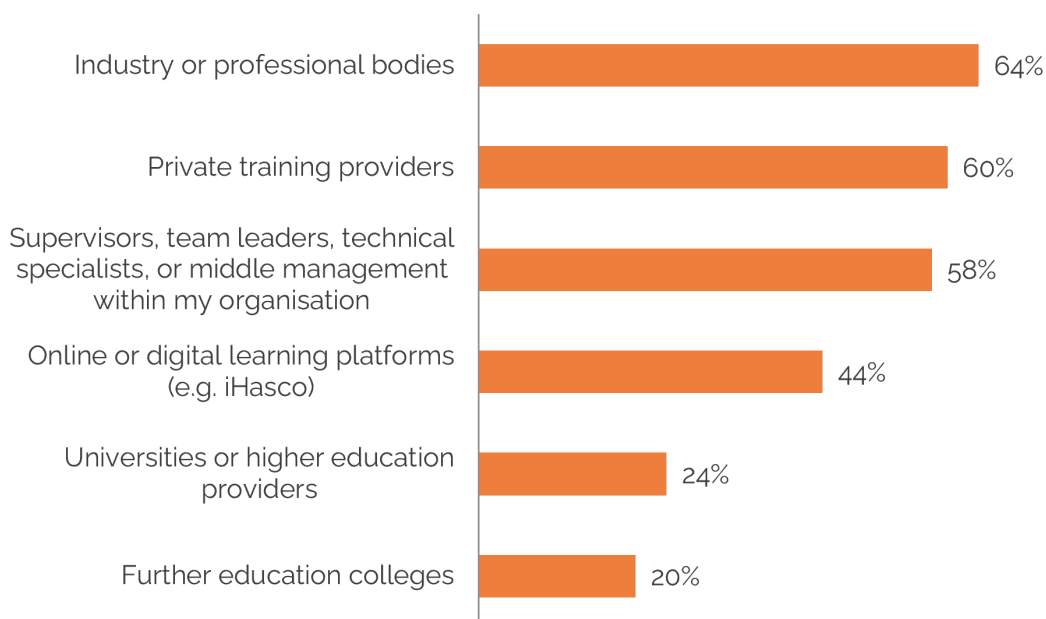
Employers surveyed were asked to select their preferred type of training provider for existing investment in skills and given the opportunity to select up to three options. Nearly two thirds of firms selected 'industry or professional bodies' (64%) as one of the three providers best placed to deliver training for their organisation (Figure 15), followed by 'private training providers' (60%), and 'experienced staff such as technical specialists' (58%).

Online or digital learning platforms was selected by 44% of firms. Wider research from L&W has identified a predominance of mandatory and compliance training at the expense of more in-depth upskilling in the UK workforce compared to other countries, with digital platforms holding a large percentage of this training market.⁷⁵ This finding, coupled with wider evidence on declining employer investment in skills training, indicates that engineering and manufacturing sectors may not be immune from this trend.⁷⁶

⁷⁵ Learning and Work Institute 2026 ([Training and skills needs](#))

⁷⁶ Learning and Work Institute (2026) [Understanding employer investment in skills](#)

Figure 15: Industry and professional bodies are the most preferred training providers



Preferred training providers NET top 3; Base: all respondents, n=251

Figure 16 shows that just one fifth of engineering and manufacturing employers selected 'further education colleges' (20%) among their preferred providers, with the same being true for less than one quarter (24%) of 'universities or higher education providers'. Firms interviewed highlighted a range of factors impacting the quality of courses and training offered by colleges and universities, including outdated equipment and a lack of tutors possessing industry standard and up to date skills. Employers interviewed also identified the relationship between skills shortages within industry and skills shortages in education, with tutors who possess up to date technical skills being tempted out of colleges and universities in pursuit of higher wages offered by engineering and manufacturing firms. This challenge has been referenced in the previous two Skills White Papers published in 2021 and 2026.⁷⁷ However, existing action in the form of the FE Teacher Industry Exchange programme has been limited to the Construction industry, with no current plans to extend this to wider sectors (like manufacturing) included in the Industrial Strategy.

All of these factors were identified by L&W in interviews with colleges and universities in the 2023 report *Manufacturing Excellence*, suggesting employers and skills providers have a common experience and understanding of these challenges.⁷⁸ In interviews with employers undertaken for this research, these factors were reported as driving firms to look at alternative private providers as well as bringing more training in-house,

⁷⁷ Department for Education (2021) [Skills for jobs: lifelong learning for opportunity and growth](#) and Department for Education (2025) [Post-16 education and skills white paper](#)

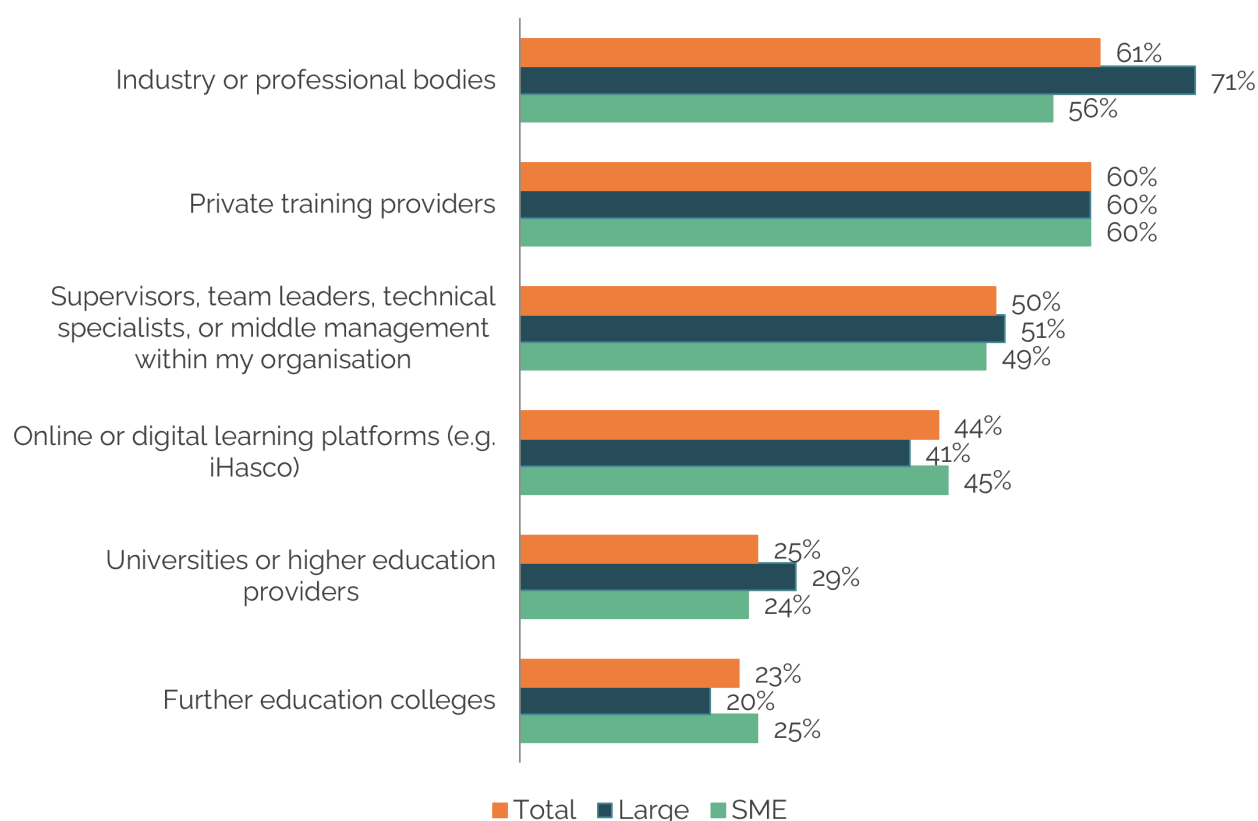
⁷⁸ Learning and Work Institute (2023) [Manufacturing Excellence - Learning and Work Institute](#)

particularly in the access and delivery of in-demand technical skills. This evidence is supported by the high numbers of firms selecting these options among their preferred providers within the employer survey.

It is worth noting that publicly funded provision will always have regard to the needs of individuals and the wider economy, as well as the immediate needs of individual employers. While private providers can sometimes be more flexible in creating courses around individual paying employers, provision and skills acquired may not be as portable.

Beyond existing training spend, engineering and manufacturing employers were also surveyed on who they would want to deliver additional training if budgets were bigger. Figure 16 shows that 'industry or professional bodies' would continue to be the most preferred training providers, with three in five (61%) selecting them among their top three options. This is particularly the case for large employers with more than seven in ten (71%) selecting this option, compared to 56% of SMEs.

Figure 16: Industry bodies are the preferred providers for additional training



Preferred providers for additional training; Base: respondents who reported that additional tax relief would result in them increasing training spend, n=241; SME n=161; Large n=80 (figures relating to large employers should be read with caution due to the relatively small sample size)

Noticeably, firms of all sizes appeared to be more willing to use external training providers rather than in-house if their training budgets were bigger. This would almost certainly be necessary for any additional training expenditure eligible for tax relief, as unaccredited in-house training would likely to sit outside any framework for incentives.

This puts a greater onus on the need to maximise the quality of accredited training as part of any tax relief framework aiming to encourage greater employer investment in skills. However, when firms were surveyed on which providers they would favour if they had a larger training budget, 'further education colleges' (23%) and 'universities or higher education providers' (25%) were again the least selected options. Wider survey findings also cast doubt on the ability of industry and professional bodies, the most selected option, to deliver the potential training dividend offered by greater tax relief on investment in skills.

Firstly, as outlined, nearly two thirds (65%) of firms favouring direct tax reduction would prefer a higher rate of relief on training for lower skilled workers only. While professional bodies and associations such as the Manufacturing Technology Centre and Advanced Manufacturing UK have a strong track record of responding to specialised higher technical skills shortages and supporting employers in these sectors to embrace advanced manufacturing and automation, they do not typically play a large role in training lower-skilled, younger, and entry level workers. The wider range of transversal skills required by younger and lower skilled workers represent a major part of what further and higher education providers focus on.

Secondly, industry bodies and associations may struggle to adequately scale training to meet increased demand. With nearly seven in ten (68%) of large engineering and manufacturing employers saying that tax relief would enable them to increase training budgets by 20% or more, we need a skills ecosystem that can translate increased demand and cash into the delivery of much needed training, with a dividend for workers, companies and the UK economy.

Both factors point to the need to redouble efforts to improve collaboration between industry and further and higher education providers. Measures announced in the 2025 Post-16 Education and Skills White Paper, if successful, could play an important role.⁷⁹ Co-delivery of training, shared facilities, and joint professional development could help prevent firms and providers fishing in the same talent pool and ensure curricula keep pace with changes in industry.

Local Growth Plans and Local Skills Improvement Plans also present opportunities for regions and areas to formalise collaboration between industry and providers, allowing for co-delivery and joint professional development in a way that responds to employer and learner demand. The Local Growth Fund has been designed to strengthen regional clusters and business support as well as assist on skills development and the adoption

⁷⁹ Department for Education (2025) [Post-16 education and skills white paper](#)

of emerging technologies.⁸⁰ There is also evidence that manufacturers and local providers are already progressing this form of partnership in many areas, with the Cornwall Manufacturers Group (including membership from Cornwall College, Truro College, and Penwith College) offering an example.⁸¹

It is important to minimise subsidy for training that would have happened anyway, particularly with pressures on government spending

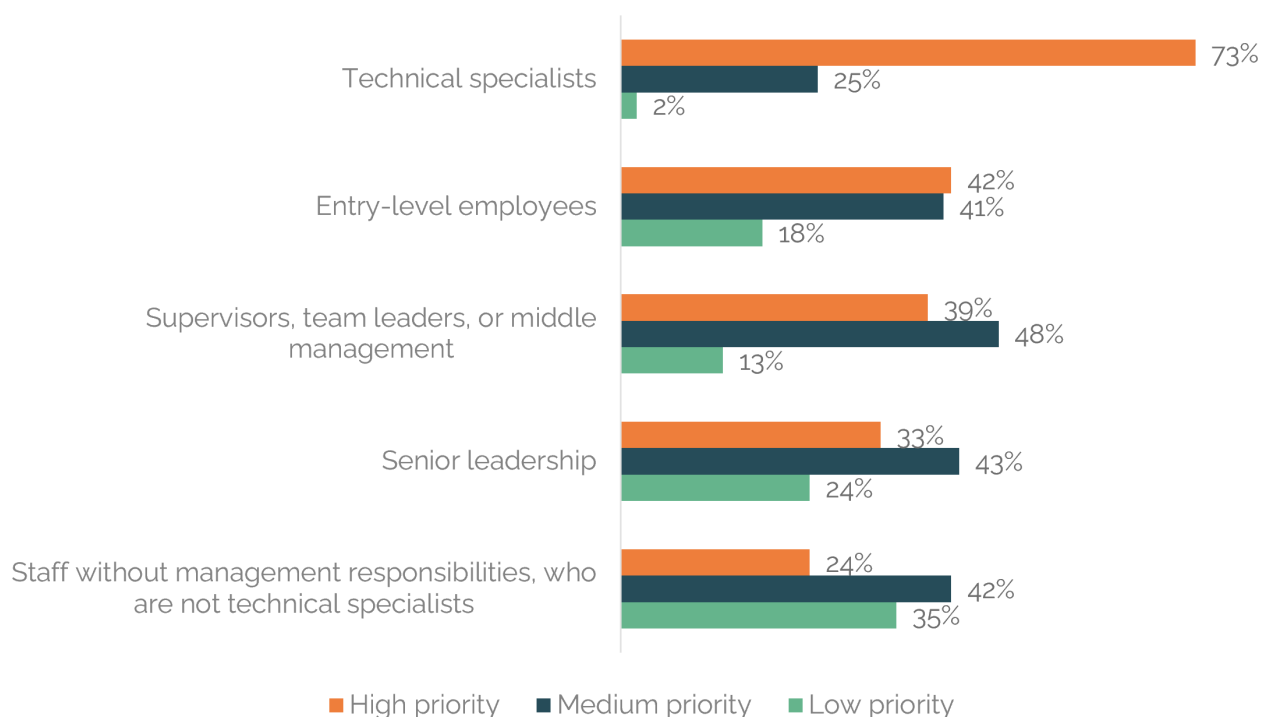
Additional tax relief on training spend for engineering and manufacturing firms would, by definition, come at an upfront cost to the taxpayer at a time when the fiscal environment is and will remain tough. This increases the importance of minimising the amount of money spent subsidising training that would have happened anyway, deadweight. While the effects of any policy measure cannot be guaranteed, responses to the employer survey for this report suggest that targeting tax relief at lower skilled workers would both command support from a large number of engineering and manufacturing firms and help ensure additionality in employer spend on training.

As covered, entry level and lower skilled workers are not being prioritised within existing training budgets compared to other staff groups, with just 18% reporting 'staff without management responsibilities who are not technical specialists' as a high priority within their current spend, and 27% reporting this for entry level employees. This is despite engineering and manufacturing sectors facing pressing challenges on upskilling and replacement demand. However, employers surveyed signalled that they would give greater priority to these staff groups were their training budgets bigger, with 42% (Figure 17) reporting that entry level employees would be a high priority if the pot for skills spending was larger, a 15 percentage point increase.

⁸⁰ Ministry of Housing, Communities and Local Government (2025) [Local Growth Fund \(England\): policy statement](#)

⁸¹ Cornwall Manufacturers Group [Supporting Manufacturers](#)

Figure 17: Staff groups that would be prioritised for additional training



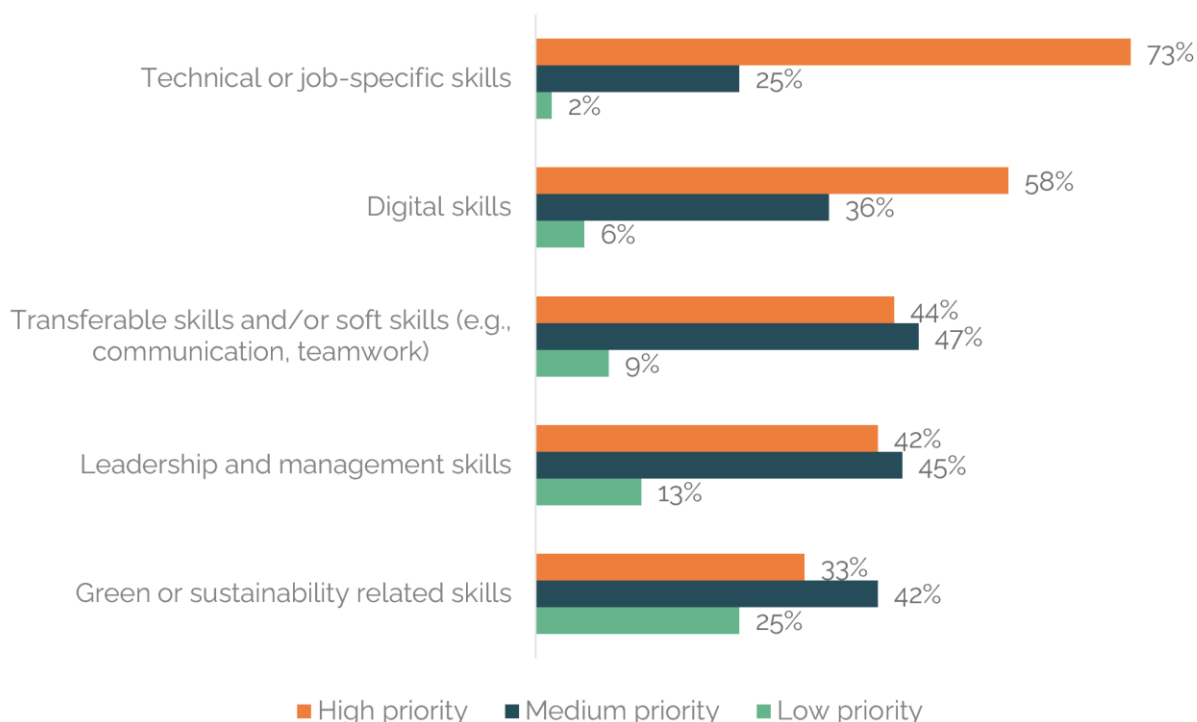
Staff groups priority with a larger training budget; Base: all respondents, n=251

Restricting tax incentives to lower qualified workers at a more generous rate of relief also received strong backing from engineering and manufacturing employers surveyed. To recap, nearly all (96%) companies reported that additional tax relief would encourage them to spend more on training. Of these, more than seven in ten (71%) would favour a model providing a direct tax deduction, allowing firms to reduce the amount they pay to the exchequer by investing more. Within this group, two thirds (65%) would prefer an additional 50p relief on training for lower skilled workers only, compared to an additional 25p relief on training for all staff. Taken together, this means that 44% of employers surveyed backed an additional 50p relief on training for lower skilled workers only to increase investment in skills.

Responses to the employer survey also highlight the risk of deadweight investment that may accompany the introduction of further tax relief on training spend if support is not targeted at specific groups of workers. Despite greater priority being given to lower skilled workers, nearly three quarters (73%) reported that technical specialists would be a high priority for skills investment were training budgets bigger. This is even higher than the percentage (68%) of engineering and manufacturing firms who reported this within existing training budgets. There is an obvious ceiling on training investment for any staff group, with a balance to be struck between time spent on training and time spent on the day job. This is true for technical specialists, who by definition have a relatively low head count within any organisation.

Technical specialists also have a role to play in delivering in-house training and diffusing technical skills across the production line. Backing for training spend on this staff group, is coupled with the prioritisation of technical skills within existing budgets, and a strong signal that this would continue if budgets were bigger (Figure 18). This may point to a desire from firms to go further in increasing in-house training.

Figure 18: Skill types that would be prioritised for additional training spend



Skill types priority with a larger training budget; Base: all respondents, n=251

Firms currently have the freedom to spend training budgets beyond their contribution to the Growth and Skills Levy as they prefer. However, incentives enabled by tax relief could help encourage firms to target this investment where it can make the most difference. However, targeting requires rules which can add to the complexity of an already complex tax system, increasing compliance costs and reducing take up. As ever, there are trade-offs between granting firms flexibility, ensuring investment goes to the areas of greatest need, and ensuring value for money.

This report recommends this trade-off can be best balanced by offering additional relief on accredited courses, qualifications, and apprenticeships up to level 5. This incentivises firms to invest in training for entry-level and lower-skilled workers, offering potential to redress inequalities in who benefits from training, and allow the manufacturing sector to respond to replacement demand created by an ageing workforce. However, it safeguards manufacturing firms' ability to direct investment towards technical specialists where there is a high concentration of skills shortages, taking action to address the much reported "missing middle" and respond to steeply

growing demand for intermediate and higher-level skills. We can have some confidence on firms' ability to distinguish between accredited and non-accredited options but recognise that some firms may need support to understand different qualification levels and ensure compliance.

As explored, in the previous chapter, there may be opportunities to offset the costs of this measure by removing or limiting reliefs on NICs for employees under 21 and apprentices under 25, given these do not appear to be having a great impact on youth or apprenticeship employment.

The UK can learn from international approaches to tax relief on skills training

International evidence indicates that striking the balance between employer flexibility, targeted investment and value for money is not straightforward, with a range of nations and regions attempting to use tax credits, tax allowances, and tax relief to promote better alignment between labour market needs and the supply of skills.⁸²

For example, financial incentives on offer in Finland between 2014 and 2024 were designed to cover 50% wage costs for employees during their period in training. However, to be eligible for this deduction, firms were required to draw up a training plan at the beginning of each year. The policy was withdrawn in 2025 after its failure to increase the amount of training on offer, with a 'Corporation Taxation Working Group', labelling the scheme an "inefficient and administratively burdensome form of support for companies".⁸³

These types of broad-based incentives may not be equally suited to employers of all sizes, with smaller firms facing an outsized burden in demonstrating compliance.⁸⁴ SMEs can also find it harder to identify, access, and implement suitable training opportunities, areas where Skills England have identified a need for additional support.⁸⁵ These factors may help explain the differences in increased training spend that engineering and manufacturing firms anticipate being unlocked by additional tax relief. While large firms favouring additional tax relief were most likely to suggest this could result in a 20% to 29% increase in training spend, SMEs were most likely to suggest a 10% to 19% increase.

International examples would suggest that this cannot be resolved by more generous rates of relief for SMEs alone. Germany's 2019 Qualification Opportunities Act (QOA) subsidised both training costs and wage compensation, with rates varying according to employer size. Smaller firms could benefit from up to 90% relief on training costs, with support tapering down to 50% for larger employers. However, despite this generous rate of relief, take-up remained relatively low, with only 1 in 1000 workers receiving

⁸² OECD (2017) [Financial Incentives for Steering Education and Training, Getting Skills Right](#)

⁸³ FinLex (2024) [Government proposal to Parliament for acts on the income tax scale for 2025](#)

⁸⁴ OECD (2012) [Taxes and Investment in Skills \(EN\)](#)

⁸⁵ Skills England (2026) [Skills England: annual skills report 2026](#)

support each year. Nonetheless, evaluations found modest increases in participation among underrepresented groups, suggesting some success in reaching workers who might otherwise have missed out on training opportunities.⁸⁶

To address challenges employers can face in identifying and implementing the right form of training, South Carolina coupled the provision of tax credits with comprehensive hands-on administrative assistance from Apprenticeship Consultants. The scheme, offering \$1000 per apprentice per year relief was associated with a more than sixfold increase in registered apprenticeship programmes, and a more than five-fold increase in apprentices (from 1,000 to 5,000) between 2007 and 2014.⁸⁷ While this may in part reflect the redesigning of some existing training as apprenticeship programmes, as well as low starting point in numbers of apprentices, this form of holistic wrap around support was seen as a major driver of the policy success.⁸⁸

This further supports the conclusion that any fiscal measures to encourage greater training spend should be situated within a holistic approach that tackles wider challenges and disincentives to investment head on. To maximise the take up of tax reliefs on offer, employers need confidence in the availability, quality and relevance of training provision; an ability to identify and forecast skills needs; and the information to guarantee compliance and capture a return on investment. This will be particularly important for engineering and manufacturing SMEs who are more likely than large firms to lack the resource to do this independently, and among whom two thirds (65%) report having either a 'limited understanding' or 'no understanding' of Government support available on skills and training.⁸⁹

⁸⁶ Learning and Work Institute (2025) [Investing in skills: international policy insights for the UK](#)

⁸⁷ South Carolina General Assembly (2009) [Bill 3526: Income tax credit](#)

⁸⁸ OECD (2017) [Financial Incentives for Steering Education and Training](#)

⁸⁹ Enginuity (2026) [SME Snapshot](#)

Conclusion

This report gives us reasons for optimism. Engineering and manufacturing employers of all sizes recognise that increasing training spend is mission critical to business success. They understand the relationship between investment in skills and the ability to adopt new technologies, increase productivity, boost employee satisfaction, and achieve growth. Against a backdrop of skills shortages and lagging investment in human and physical capital, this is vital.

We also have evidence that employers, skills providers, and governments all possess a common understanding of some of the key challenges impacting on firms' ability to invest in training. These include the availability, quality and flexibility of provision; skills shortages across employers and providers becoming mutually reinforcing; companies struggling to navigate and engage with the system as it stands; and firms having issues auditing, forecasting and articulating skills needs in a way that providers can respond to. This shared understanding is foundational to effective collaboration. Placed-based policies can harness and promote this common purpose, and there are signs that firms and providers are getting on with the job at hand.

Nonetheless, there are a range of additional factors also impacting training investment by engineering and manufacturing employers that this approach to collaboration cannot assist with. These include energy costs, labour costs, tax, and a lack of growth, eating away at businesses' bottom line. This requires us to consider the underlying drivers of investment and explore how to tip the balance of disincentives and challenges versus incentives in favour of higher spending.

A Skills Tax Credit appears to hold significant potential in this regard. Almost all engineering and manufacturing firms surveyed agree that this would allow them to increase their training budgets, many by 20% or more. We estimate that an additional annual £2.2 billion in training spend could be unlocked, including £138 million in the manufacturing sector, at a cost to the Exchequer of £900 million per year.

These employers also provide policymakers with a steer on how this model could be designed, favouring a targeted approach that could allow businesses to give greater priority to lower skilled workers. In turn, this could allow engineering and manufacturing sectors to tackle two existential challenges head on. Firstly, high levels of replacement demand created by an ageing workforce. Secondly, the need for a step change in upskilling to meet demand to intermediate and higher level job roles in the years ahead. It could also help ensure workers currently missing out on training begin to benefit and provide opportunities to boost labour market participation at a time when too many young people are NEET.

No policy outcome is certain. Fiscal measures are not a panacea and must be set within a broader approach to improving the skills system to yield significant increases in investment. Efforts must also be taken to minimise deadweight investment in a tight

fiscal climate. However, approaches taken by other nations and regions globally hold an important lesson. That is, the introduction of new incentives and efforts to provide employers with wrap around and holistic support must be undertaken in lockstep. This can help unlock a training dividend for workers, employers and the UK economy. This should be an exciting prospect to spur growth and opportunity nationwide.

Recommendations

1. The Government should introduce a Skills Tax Credit giving additional tax relief of 20p for every £1 invested in accredited courses, qualifications and apprenticeships up to and including level 5.

Mirroring the R&D tax credit, this Skills Tax Credit would mean that both profitmaking and lossmaking firms face reduced tax bills if they invest in training. Targeting incentives at lower and intermediate skill levels can help to redress inequalities in the distribution of skills investment, support workers most in need of training, and allow companies to respond to growing challenges around upskilling and replacement demand. It can also help firms to address the UK's missing middle and continue responding to shortage areas reported as most pressing. Given the need to increase total investment in skills and training, there is a clear case for retaining existing support available to firms. However, the Government may wish to offset some or all the costs of this measure by reforming the tax treatment of training spend beyond level 5 or limiting the relief on NICs for employees under 21 and apprentices under 25, which appears to be having a very limited impact.

2. The Government should back training providers to translate the resulting increased training demand into a bigger market of short and modular options at lower and intermediate skill levels. Tax incentives have the potential to offer training providers with greater certainty over employer demand. This could allow them to invest in course design, curriculum planning, and related professional development with more confidence. On the other side of the coin, a wider range of available training options that support workers to flexibly upskill could help unlock more demand and greater spend among firms, particularly among SMEs for whom releasing staff for training is a real challenge. Steps to fuel a nascent market of short and modular training at lower and intermediate levels would also complement the Lifelong Learning Entitlement, which is limited to higher education or equivalent.

3. The Government should work with employers and training providers to maximise the quality of accredited training options available for tax relief and increase employer confidence to invest. This could include supporting more industry-based technical specialists to teach in further education by extending the FE Teacher Industry Exchange Programme to cover all Industrial Strategy sectors, including engineering and manufacturing.

4. Dedicated support should be introduced to help SMEs comply with tax relief requirements, diagnose workplace needs, and connect with available training. There may be opportunities to strengthen the support in place through the Local Growth Fund, already allowing Mayoral Strategic Authorities to link practical business support with skills development.

Annex

Learning and Work Institute and Enginuity would like to thank the following organisations for their contribution to this report.

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- GAMBICA
- HF Bond
- HoneAll
- Jaltek
- Legacy Manufacturing Solutions
- MAKE UK
- MPM Group
- Nieper Clothing
- OECD
- Produmax
- Spiral UK
- Tadmeld
- Tams Packaging
- The MTC
- Thomas Brown Engineering
- Thomas Dudley Works
- Threeway Pressings
- TWP Group
- UIMM
- Wedge Galvanising
- Westley Engineering
- XTRAC