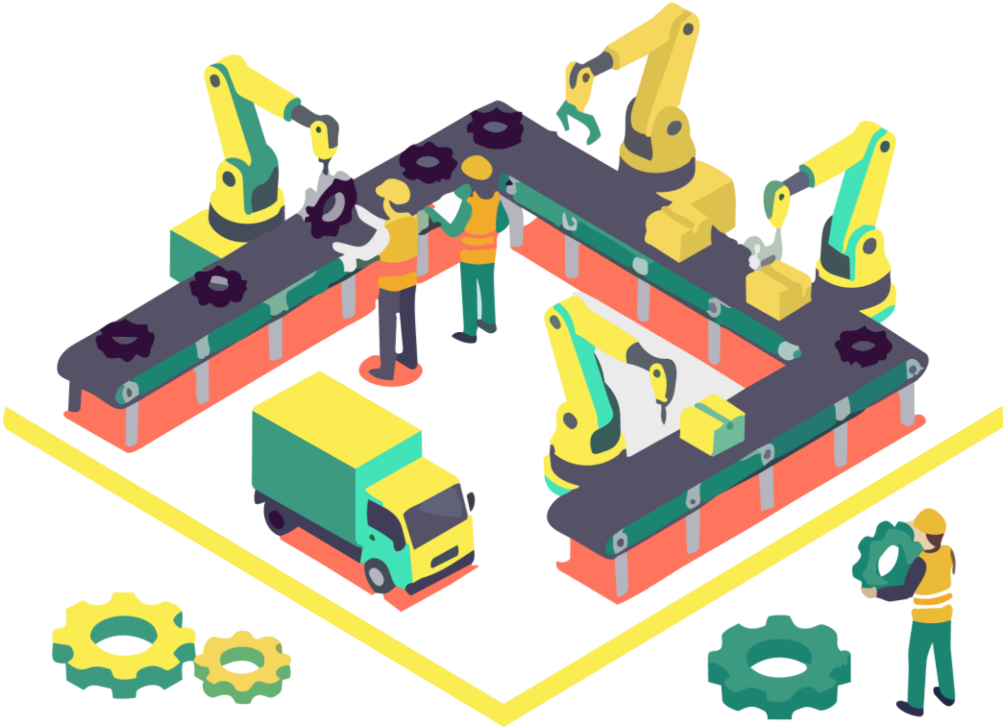
Growth & skills levy 2026

Harnessing new initiatives to enhance workforce capabilities

Is your business ready?

instep



Contents

03

Foreword

Lauren Webb
Director of Client Solutions
Instep UK

For many employers, the conversation around skills has shifted dramatically over the last few years.

The challenge is no longer simply attracting talent. It is developing the capability, adaptability and leadership needed to thrive in an increasingly competitive and fast-changing economy.

Across sectors including digital, manufacturing, engineering, healthcare and professional services, organisations are facing persistent skills shortages while simultaneously navigating technological transformation, economic uncertainty and rising workforce expectations.

The introduction of the Growth & Skills Levy represents a significant opportunity for employers to rethink how they invest in their people.

What excites me most about these reforms is the opportunity they create for organisations to move beyond viewing levy funding as a compliance requirement and instead view it as a strategic investment in future growth.

The period leading up to August 2026 is particularly important. Employers who take the time to understand forthcoming changes, review their levy position and align workforce planning with business objectives will be best placed to maximise available funding and avoid unnecessary future costs.

At Instep UK, we work with organisations every day that are using workforce development to overcome skills shortages, strengthen talent pipelines and build future leaders.

The organisations that act now will not simply be preparing for levy reform. They will be building the workforce they need for the future.

"The organisations that will thrive tomorrow are investing in workforce capability today."

04

Executive Summary

The Growth & Skills Levy represents the most significant evolution of employer-funded workforce development since the introduction of the Apprenticeship Levy in 2017.

Designed to provide greater flexibility, the new framework allows employers to invest in both traditional apprenticeships and shorter, more targeted training that reflects the changing needs of the modern workplace.

Key Opportunities

- Up to **£2,000 Foundation Apprenticeship incentives**
- Expanded flexibility through Apprenticeship Units
- Better alignment between training investment and business needs
- Stronger talent pipelines for future workforce requirements
- Improved return on investment from levy fundingc

Key Risks of Delay

- Levy funds expire after only **12 months**
- Employer co-investment may increase from **5% to 25%**
- Future standards may be restructured or removed
- Skills shortages continue to drive recruitment costs upward

Leadership Perspective

Organisations that proactively align workforce planning with levy reforms will be best positioned to maximise available funding, improve productivity and strengthen long-term competitiveness.

05

The UK Skills Challenge

Why Workforce Capability Is a Growth Issue

UK employers continue to face persistent skills shortages that are restricting growth, innovation and productivity across multiple sectors.

While recruitment remains important, workforce capability is increasingly becoming a strategic business issue requiring long-term investment in skills development and future talent pipelines.

The Scale of the Challenge

27%

of UK vacancies are skills-shortage vacancies, meaning employers are unable to recruit people with the skills required.

Skills Shortages Continue to Constrain

- Business growth
- Productivity
- Innovation
- Digital transformation
- Operational resilience

Particularly across:

- Construction
- Manufacturing
- Engineering
- Health & Social Care
- Digital and Technology

Skills England Perspective

Skills England identifies workforce capability as fundamental to achieving the UK's ambitions around:

- Artificial Intelligence
- Advanced Manufacturing
- Digital Transformation
- Net Zero
- Economic Growth

AI is Reshaping Workforce Skills Requirements

Artificial intelligence is one of the most significant drivers of changing workforce skills requirements across the UK economy.

Employers increasingly require skills in:

- AI literacy
- Data analytics
- Automation
- Systems thinking
- Digital transformation

The Growth & Skills Levy is designed to support more agile pathways into these emerging skills areas.

06

Why the Levy Is Changing

From Rigidity to Flexibility

The Apprenticeship Levy successfully increased employer investment in workforce development but was often criticised for being too restrictive.

Many organisations found it difficult to align levy spending with rapidly evolving business requirements.

Why Reform Was Needed

40%

Apprenticeship starts among young people have fallen by around 40% over the last decade, raising concerns around future talent pipelines and workforce renewal.

Employers Need Faster Skills Development

Organisations increasingly require skills in:

- AI and automation
- Digital transformation
- Leadership
- Net-zero technologies
- Advanced manufacturing

Many of these needs require targeted interventions rather than traditional multi-year programmes.

The Growth & Skills Levy Response

The Growth & Skills Levy has been designed to:

- Increase flexibility
- Address immediate workforce needs
- Strengthen talent pipelines
- Support long-term economic growth
- Improve productivity

07 What Is the Growth & Skills Levy?

Announced in 2024, the Growth & Skills Levy is designed to replace the Apprenticeship Levy while retaining apprenticeships as its foundation.

The key difference is increased flexibility in how levy funding can be used.

Levy Funding Can Support

- Traditional Apprenticeships
- Foundation Apprenticeships
- Apprenticeship Units
- Modular Training Programmes
- Priority Sector Skills Development
- Workforce Upskilling and Reskilling

Benefits for Employers

Greater Flexibility

Training can be tailored to immediate and long-term business requirements.

Improved Productivity

Targeted development helps employees acquire critical skills faster.

Better Alignment with Industry Needs

Training investment can be more closely linked to labour market demand and organisational priorities.

08 Foundation Apprenticeships

Building Future Talent Pipelines

Foundation Apprenticeships are designed for learners aged 16-24 and combine structured training with paid employment.

They provide a new pathway into high-demand occupations and create progression routes into higher-level apprenticeships.

Priority Sectors

- Construction
- Engineering & Manufacturing
- Digital
- Health & Social Care

Employer Benefits

- Access to future talent
- Reduced recruitment costs
- Improved succession planning
- Stronger workforce diversity
- Long-term workforce resilience

Financial Incentive

Employers may be eligible for incentives of up to:

£2,000

per eligible Foundation Apprentice.

09 Skills Flexibility and Apprenticeship Units

One of the most significant innovations within the Growth & Skills Levy is the introduction of Apprenticeship Units.

These shorter, targeted training modules enable employers to respond rapidly to specific skills gaps.

Supporting the UK's Industrial Strategy

Apprenticeship Units are expected to prioritise skills linked to:

- Artificial Intelligence and Data Technologies
- Advanced Manufacturing and Engineering
- Clean Energy and Renewable Technologies
- Construction and Infrastructure Delivery

These sectors are central to UK productivity growth and future economic competitiveness.

AI and Digital Capability

Apprenticeship Units can rapidly develop capability in:

- AI
- Machine Learning
- Data Analytics
- Cyber Security
- Digital Transformation

This approach enables organisations to react more quickly to changing technology and workforce requirements.

10

AI, Automation and the Future Workforce

AI Adoption is Accelerating

Businesses across every sector are investing in AI and automation to improve efficiency, decision-making and customer experience.

The Skills Gap is the Real Challenge

Technology investment alone does not create value.

Organisations need employees who can:

- Understand AI systems
- Implement technology effectively
- Interpret insights and data
- Work alongside AI-powered tools

The Levy Creates Flexibility

The Growth & Skills Levy allows employers to invest in shorter, targeted training that develops AI and digital capability more rapidly than traditional learning routes.

Competitive Advantage

Organisations that combine:

Technology Investment

with

Workforce Development

will be better positioned to:

- Improve productivity
- Increase innovation
- Accelerate growth
- Strengthen competitiveness

> AI will not replace workforces, but organisations that successfully combine AI investment with workforce development will outperform those that invest in technology alone.

Why This Matters for UK Economic Growth

Skills Are Now a Boardroom Issue

Workforce capability is increasingly becoming a key determinant of organisational productivity and economic growth.

Nearly 1 Million

young people are currently not in education, employment or training.

353,000+

apprenticeship starts were recorded in England during 2024/25.

Skills and Productivity

Skills shortages remain among the most significant barriers to UK productivity improvements.

The Growth & Skills Levy Aims To

- Connect training investment to business performance
- Support priority growth sectors
- Address workforce capability gaps
- Strengthen national competitiveness
- Improve long-term economic resilience

12

Financial Incentives and Funding Opportunities

Employers can access a range of financial benefits under the evolving levy framework.

Up to £2,000 per Foundation Apprentice

Funding may be available to support onboarding, development and progression activities.

Full Funding Opportunities for SMEs

Many smaller employers recruiting younger apprentices may receive full government funding for training costs up to the funding band maximum.

Reduced Recruitment Costs

Apprenticeships continue to provide one of the most cost-effective approaches to workforce development and talent acquisition.

Better Return on Levy Contributions

Every pound spent on workforce capability creates greater value than levy funding lost through expiration.

13

The Financial Impact of Waiting

From August 2026, employers may face significantly higher workforce development costs if levy balances are unavailable.

Levy Funds Expire Faster

Funds will expire after:

12 Months

instead of the current 24-month period.

Employer Contribution Increases

Current co-investment:

5%

Potential future co-investment:

25%

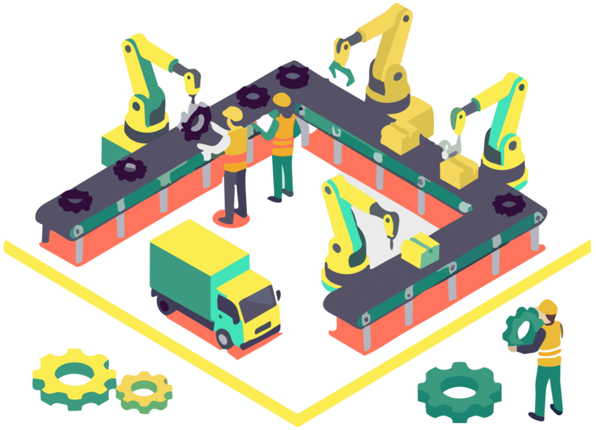
Cost Example

10 Apprentices

Funding Band: £9,000

Current Employer Cost: **£4,500**

Future Employer Cost: **£22,500**



Potential Additional Cost

£18,000

This highlights the financial benefit of planning workforce development activity before reforms take full effect.

Employer Action Plan

STEP 1

Audit current levy balances and identify funding at risk of expiry.

STEP 2

Align workforce development plans with wider business objectives.

STEP 3

Identify priority skills gaps across leadership, digital, technical and operational areas.

STEP 4

Bring forward apprenticeship starts where appropriate.

STEP 5

Explore Foundation Apprenticeships and Apprenticeship Units.

STEP 6

Engage training providers as a strategic partner to understand available opportunities.

STEP 7

Monitor updates from Skills England and the Department for Education..

STEP 8

Develop a 12-month workforce capability strategy.

15 Leadership Takeaway

From Recruitment to Workforce Building

The Growth & Skills Levy presents an opportunity to move beyond short-term recruitment solutions and develop sustainable workforce capability.

Organisations that plan strategically can:

- Maximise levy value
- Reduce future training costs
- Improve productivity
- Build future leaders
- Strengthen talent pipelines

Executive Perspective

"The organisations that win over the next decade will not be those that simply recruit talent, but those that systematically build it. The Growth & Skills Levy creates a rare opportunity to align workforce investment with productivity, innovation and the UK's long-term industrial growth agenda."

16 Final Thoughts

The Growth & Skills Levy arrives at a critical moment for UK employers.

As AI, automation and digital technologies reshape industries, workforce capability is becoming one of the most important determinants of competitive advantage and sustainable growth.

The organisations that act early will be best positioned to:

- Maximise funding opportunities
- Reduce future workforce development costs
- Address critical skills shortages
- Strengthen productivity
- Build future talent pipelines
- Improve long-term business performance

Ready for August 2026?

Audit your levy position.

Review your workforce strategy.

Build future capability.

Start planning today.

instep