BUILDING BRITISH SKILLS · PAPER 01

Paper I: The National Skills Account

An account for every citizen, with an entitlement at 18 that keeps its value.

16 min read · November 2026

Britain is overqualified in the wrong skills. Graduates now make up a larger share of the workforce than ever, yet many work in jobs that do not need a degree, while the country imports engineers, technicians, doctors and nurses it has not trained.

The funding system is a large part of the problem, as are the existing incentive structures. At 16, colleges and sixth forms are funded for each student. At 18, a young person who wants to go to university can borrow to cover fees and living costs, while one who wants a technical qualification or a trade finds support that is patchy and hard to navigate. Anyone who wants to start a business receives almost nothing. Support after 18 is fragmented and unequal, generous towards one route and uncertain for the rest. Those who take the funded route leave with debts that delay home ownership and family formation, and many of their degrees are not worth what they cost. A nation interested in securing a prosperous future for its citizens should be providing opportunity for all paths.

This paper proposes a National Skills Account for every citizen. Funding for education from 16 to 18 will follow the young person. At 18, every citizen will receive the same entitlement, which they may spend on any approved route, whether a degree or diploma from a research university or a University of Technology, an advanced technical qualification such as the British Master qualification, an apprenticeship or the launch of a business. The entitlement will be renewed at 25 and 40, so that adults can retrain as the economy changes. It will be held in skills units that keep their value over a lifetime, in a single account that records each person's skills and qualifications.

The design draws on two systems that do better than Britain. From Germany it takes the principle that every route is funded and respected, that employers own the standards of technical training and that an advanced technical qualification can lead directly to running a business. From Singapore it takes the individual lifelong learning credit and the link between national industrial strategy and the skills the state chooses to support.

This is the first of four papers. The second sets out the routes and institutions the entitlement will fund, including new Universities of Technology and a British Master qualification for advanced technical skill. The third deals with how skills are paid for beyond the entitlement, including university finance and the contribution of employers. The fourth deals with the training of doctors, nurses, dentists and teachers.

1 The problem

The present system produces too many qualifications of the wrong kind and too few of the kind the economy needs, at a high cost to the young people who take the funded route and to the taxpayer.

MEASURE	FIGURE
Graduates as a share of the UK workforce	Around 42%
Average student loan balance on entering repayment in England, 2025-26 (provisional)	Around £47,700
Share of new full-time student lending not expected to be repaid, 2025-26	Around 30%
Doctors working in the UK who qualified abroad	Around 42%
Medical school places funded in England each year	Around 7,500

Four failures stand out. Support at 18 is concentrated on one route and patchy for the others, so young people are pushed towards degrees whether or not a degree suits them. It produces graduates faster than the economy creates jobs that need them, so many take work they could have done without the debt. It caps training in professions such as medicine and then fills the gap by recruiting abroad. And it gives adults almost no help to retrain when their industries change, so the cost of economic change falls on those least able to bear it and, in the end, on the welfare system.

Previous attempts at individual learning accounts have failed for avoidable reasons. The Individual Learning Accounts introduced in 2000 were closed after little more than a year, having spent around £273 million against a budget of £199 million. The scheme had no quality assurance, weak security and no system for spotting unusual claims, and over a hundred providers were investigated for fraud. A National Skills Account must be built with the controls that scheme lacked.

2 Principles

Every citizen, every route. The state should fund the route that suits each person rather than favouring one. A young person who wants to become an electrician, an engineer, a nurse or the owner of a business deserves the same support as one who wants to read history.

The learner chooses, within limits the state sets. Individuals decide how to use their entitlement. The state decides which providers and courses may receive it, sets the maximum price of each course and pays providers for results rather than enrolment.

Value that lasts a lifetime. An entitlement awarded at 18 should be worth as much when it is used at 30 as when it was granted.

Employers own the standards. Technical qualifications are worth money only when employers recognise them, and employers should set and examine the standards of the training they rely on.

Skills for the industrial strategy. The state should weight additional support towards the skills the economy will need, while leaving the basic entitlement open to any approved route.

3 The account

S1 Create a National Skills Account for every citizen

Create a National Skills Account for every citizen in England, opened automatically at 16 and held for life. The account will record the individual's qualifications, training and verified skills in one place, hold their entitlements and show the approved routes and providers on which those entitlements may be spent. It will also record credit earned under the national credit framework set out in the second paper, so that learning on any route counts towards further study on any other. It will be built on the existing Learning Records Service and the unique learner number already allocated to every learner, which most schools and colleges already use, but redesigned around the individual rather than the institution.

The account belongs to the individual. Employers and providers may see a person's record only with their consent. Anonymised data drawn from all accounts will inform the planning of skills for the industrial strategy, showing where shortages are emerging and which routes lead to good outcomes. The account will also show each learner the outcomes of the routes and providers available to them, including completion rates, progression and earnings, so that choices are made with the information they deserve.

S2 Hold entitlements in skills units that keep their value

Hold every entitlement in skills units rather than pounds. One skills unit will be worth one pound in the base year, uprated each year in line with the Consumer Prices Index, and providers will redeem units at their current value. Every award and renewal will be made in units, so that an entitlement keeps its real value however long it is held and the number shown in the account does not fall as prices rise.

The account is a public ledger operated by the state. Units cannot be withdrawn as cash or transferred to another person and may be redeemed only by approved providers for approved purposes.

4 Education from 16 to 18

S3 Let funding for 16 to 18 education follow the young person

Place the existing funding for each young person's education from 16 to 18 in their account, so that it follows the choice they make between school sixth forms, colleges, apprenticeships and other approved providers. The budget will mirror present spending on education and training for this age group. What changes is that the funding is visible to the young person and moves with them, including into apprenticeships and technical training, rather than being allocated to institutions on the basis of past numbers.

Providers will continue to be paid at national rates, with additional funding for students who need more support. Funding for 16 to 18 education remains free to the learner and does not reduce the entitlement available at 18.

5 The entitlement at 18

S4 Give every citizen an entitlement at 18

Give every citizen an entitlement of 20,000 skills units at 18, which they may spend on any approved route at any point in their life. Approved routes will include degrees from research universities, degrees and diplomas from Universities of Technology, advanced technical qualifications including the British Master qualification, the training element of an apprenticeship, short professional courses and the enterprise route set out in S9.

An apprentice's training will be funded first by their employer, through the Growth and Skills Levy or the employer's own contribution. The apprentice's entitlement may be used, with their consent, only to meet the share of costs required of a small employer that does not pay the levy, or for qualifications beyond the apprenticeship itself, so that employers cannot routinely draw on a learner's portable entitlement before using their own funds. A young person who goes straight into work keeps the entitlement for later use. Unused units remain in the account for life and may never be taken as cash.

At present levels of tuition, the entitlement would cover around two years of a university degree. Degrees that can be completed in two years would be almost entirely funded, and universities will be free to offer them. The removal of barriers to shorter and more flexible courses is set out in the second paper.

S5 Fund designated strategic subjects for their full accredited length

Designate in statute a short list of strategic subjects, beginning with physics, chemistry, mathematics, engineering, materials science and metallurgy, and review it periodically on independent advice in line with the industrial strategy. For accredited courses in designated subjects, the entitlement will cover the full length the accrediting body requires, including integrated master's years, and will carry an additional unit amount for each student reflecting the higher cost of laboratory and practical teaching.

This replaces the uncertain and declining grant that currently supports high-cost subjects with funding that follows the student. A quarter of university physics departments have reported a risk of closure within two years. Departments that teach the subjects the country most needs should not close because the funding system treats them like any other course.

S6 Make universities responsible for the cost above the entitlement

Where a course costs more than the entitlement, the university may charge the difference as an income-contingent contribution from its graduates, collected through the tax system on its behalf. The university, not the taxpayer, will bear the risk that the contribution is not repaid. A university whose graduates earn enough to repay will be able to charge for a longer or more expensive course. One whose graduates do not will have to shorten its courses, improve them or lower its charges.

Universities need income while they teach, not decades later. The Student Loans Company will therefore advance to each university, as its students progress, the expected value of their graduate contributions, calculated by the Office for Students from the repayment record of earlier graduates of the same course. Advances for later cohorts will be adjusted as actual repayments are received, so that the university

bears the difference between expected and actual repayment. Graduates will make a single repayment through the tax system as a share of their income above a threshold, divided between their loan for living costs and any graduate contribution in proportion to the balances outstanding.

The worked example below shows the effect for a student on a two-year and a three-year course, in today's prices, using the average maintenance loan of £8,150 a year for full-time students in 2025-26.

	TWO-YEAR COURSE	THREE-YEAR COURSE
Course price	£20,000	£30,000
Covered by the entitlement	£20,000	£20,000
Graduate contribution to the university	None	£10,000
Loans for living costs	£16,300	£24,450
Total owed on leaving	£16,300	£34,450

Both compare with an average balance of around £47,700 for borrowers in England entering repayment in 2025-26. The entitlement covers most or all tuition, and the remaining obligation is both smaller and free of real interest.

Graduate contributions will be regulated so that they cannot become a source of excessive debt. They will be collected through HMRC alongside other repayments, will carry no real interest and will be capped in total at the course charge in real terms. Universities will set the price of their courses but not the interest. Graduates may repay early at any time without penalty.

The Lifelong Learning Entitlement's modular structure will be retained within the new account, and its loan will be absorbed into the new system.

S7 Support living costs without real interest

Provide income-contingent loans for living costs to learners in full-time study on approved routes that do not pay a salary, including courses at research universities and Universities of Technology, full-time technical courses and full-time study for advanced technical qualifications. Apprentices and salaried trainees, who are paid while they train, will not be eligible, and nor will learners studying part-time alongside work.

Loans will be subject to an annual maximum set nationally and assessed against household income, and to a lifetime maximum equivalent to four years of full-time study, held in skills units. Where a medical or dental course runs beyond four years, the NHS will support living costs for the remaining years, as set out in the fourth paper. The balance will rise with the Consumer Prices Index and nothing more, so that borrowers repay what they borrowed in real terms. Repayments will be collected through the tax system as a share of income above a threshold, early repayment will always be permitted without penalty and any balance remaining after thirty years will be written off.

Because most or all tuition is covered by the entitlement, borrowing will be far smaller than the debts graduates carry today, and a borrower on ordinary earnings will see the balance fall each year. Loans issued since 2023 already charge interest at the Retail Prices Index alone. The changes are indexation to

the Consumer Prices Index, which rises more slowly, a repayment period of thirty years rather than forty and, above all, much smaller balances.

Young people from low-income households who show exceptional ability will be designated National Scholars. Eligibility will combine a household test, such as eligibility for free school meals at any point in the previous six years, with attainment in the top tenth of their cohort, measured either nationally or within their own school, whichever is to their advantage, so that ability is recognised wherever a child is educated. National Scholars on any approved full-time route will receive the same loans for living costs free of indexation, within the same lifetime maximum, for as long as they continue to make satisfactory progress.

6 Renewal at 25 and 40

S8 Renew the entitlement at 25 and 40

Add 5,000 skills units to every citizen's account at 25 and again at 40, so that adults can upgrade their skills or retrain as their careers and the economy change. Additional units will be available for people whose jobs are displaced by economic change, people training in skills the industrial strategy identifies as in short supply, people with low prior qualifications and people making a career change into a priority sector. Renewals will be paid to everyone who reaches 25 or 40 after the account opens, including those who were too old to receive the entitlement at 18. This brings part of the cost of renewals into the first years of the programme, before the entitlement at 18 reaches its full cost, and that transitional cost will be set out separately.

Renewals and additional units may be spent on any approved route, including short courses, modular study and workplace training. Employers, local authorities and individuals may add their own contributions to an account, recorded by source, so that employers can support their staff's training without losing sight of how their money is used.

7 The enterprise route

S9 Open an enterprise route through the account

Allow every citizen to use their entitlement to start a business, whatever route they have taken. To do so, they must complete an approved course in managing and running a business and have their business plan approved. They may then draw on their remaining units in stages to fund the launch, with each stage released against milestones such as registration, the start of trading and early sales, and each accompanied by mentoring. Those who complete a British Master qualification will have the business management element built into it, so that a skilled worker can move directly from qualification to running their own firm.

Units used for the enterprise route will be paid not to an education provider but through the British Business Bank, against approved business expenditure evidenced by invoices and paid into a business account. Enterprise spending will be subject to its own rules on eligible costs and to audit, separate from the licensing of education providers.

Where more capital is needed, the citizen may apply for a start-up loan through the British Business Bank, with repayment linked to the income they earn through self-assessment. The entitlement itself is the citizen's own and carries no repayment. Keeping the enterprise route separate from lending ensures that the account does not take on credit risk.

8 Providers, prices and controls

S10 License providers and pay for results

Apart from payments under the enterprise route, only licensed providers may receive skills units, with separate licensing for each class of provider and a published catalogue of approved courses. Each course will carry a maximum price in units, reviewed periodically against the real cost of delivery rather than raised automatically, so that the entitlement does not simply raise prices. Universities may charge more only through the graduate contribution in S6, which is shown separately and borne at their own risk.

Payments will be released in stages, on enrolment, participation, verified completion and, where appropriate, progression into work or further study. Providers will be rewarded for the skills their learners gain, completion, lasting work and the inclusion of learners who need more support, rather than for enrolment alone.

The account will include the controls the Individual Learning Accounts lacked. Learners will confirm their identity and their enrolment. Unusual patterns of claims will be flagged automatically and investigated before payment. Providers whose learners do not complete, whose courses lead nowhere or who shift employers' ordinary training costs onto the entitlement will lose their licence.

9 Cost and funding

The figures below are indicative estimates for England, assuming around 700,000 people reach 18 each year. They show the gross cost if every entitlement is used in full and if four in five are used, the offsets from the spending the programme replaces and the resulting net cost. The cost will be recorded as entitlements are spent rather than when they are granted.

ELEMENT	FULL USE	FOUR IN FIVE USED
Entitlement at 18 (20,000 units)	£14 billion	£11.2 billion
Renewals at 25 and 40 (5,000 units each)	£7 billion	£5.6 billion
Gross cost	£21 billion	£16.8 billion
Less: taxpayer subsidy of tuition loans for new students	£3.5 to £5 billion	£3.5 to £5 billion
Less: Adult Skills Fund	£1.4 billion	£1.4 billion
Net additional cost	£14.6 to £16.1 billion	£10.4 to £11.9 billion

The tuition offset is the share of the present subsidy attributable to tuition loans. Full-time undergraduate lending is forecast at around £20 billion in 2025-26, roughly half of it for tuition, and the government expects to subsidise about a third of Plan 5 lending. On that basis the tuition subsidy is around £3.5 billion a year, and closer to £5 billion on the Institute for Fiscal Studies' wider measure of

taxpayer cost. Loans for living costs continue, so their subsidy is not counted as a saving, and indexation to the Consumer Prices Index, a shorter repayment period and the extension of loans to technical routes will increase it modestly. The uplift for designated strategic subjects will be partly offset by the grant it replaces. Funding for education from 16 to 18 mirrors existing spending.

The net additional cost is therefore likely to lie between around £10 billion and £16 billion a year once the programme is fully in place, depending on how fully entitlements are used. At the same time, the end of tuition loans for new students will reduce government lending by around £10 billion a year in cash terms.

The change is real, not a matter of presentation. Under the present system graduates who earn enough repay their tuition in full, while under the new system the taxpayer meets the cost of the entitlement directly. The state takes on a larger share of the cost of training because it wants more people to train in the skills the country needs and fewer to carry debts that delay homes and families. This is an investment in the skills on which the industrial strategy depends.

10 Territorial application

Education and skills are devolved. The National Skills Account will apply in England, and the Scottish Government, the Welsh Government and the Northern Ireland Executive will receive the corresponding funding under the usual arrangements. They will be invited to join the account so that every citizen of the United Kingdom has a single record of their skills and qualifications wherever they live and train.

FIELD	APPLICATION
Entitlements and renewals	England
Skills record	England, with the devolved administrations invited to participate
Enterprise route lending	United Kingdom, through the British Business Bank
Collection of graduate contributions	United Kingdom, through HMRC

11 Legislation and delivery

The programme will be delivered through a National Skills Account Bill led by education ministers, with the account built by the Department for Education on the existing learning records infrastructure.

INSTRUMENT	MEASURES	CONTENT
National Skills Account Bill	S1 to S10	The account, skills units, 16 to 18 funding, the entitlement and renewals, designated subjects, graduate contributions, loans for living costs and National Scholars, the enterprise route and provider licensing
Secondary legislation	S5 and S10	The list of designated subjects, maximum course prices and provider licensing classes
British Business Bank	S9	Start-up lending linked to the enterprise route under existing powers

A country whose support after 18 favours one route will keep producing the skills it needs least. Every citizen should have the means to build the skills that suit them and that their country needs.