



## **Small Business Solutions: Graduate Employment Scheme**

UK unemployment rose to 2.38 million in the three months to May, the highest since November 1996.<sup>1</sup> Young people have been hit hard by the recession, with the unemployment rate for 18-24 year olds now at 16.6 per cent. Early unemployment has a lasting impact on careers for the young in terms of earnings and risk of future unemployment.

With more university students than ever before, and new tuition fees costing this year's graduates up to £3,000 a year, it is urgent that steps are taken to minimise the number of graduates who are left without jobs at the end of the summer. Last year there were already signs of problems, with graduate unemployment increasing to eight per cent. This year, levels are likely to double with between 35,000 and 40,000 graduates struggling to find work.

Figures show that vacancies for this summer's graduates have been cut by 28 per cent since last year. Of the 20,000 graduates that top employers planned to recruit this year, 5,500 posts have been cancelled or left unfilled.<sup>2</sup> The Federation of Small Businesses (FSB) believes these could be created in small and medium sized businesses.

In a recession the economy needs small businesses to innovate and expand to drive growth in the economy. However, businesses increasingly struggle to find the right skills to expand their workforce, and are not traditional graduate employers.

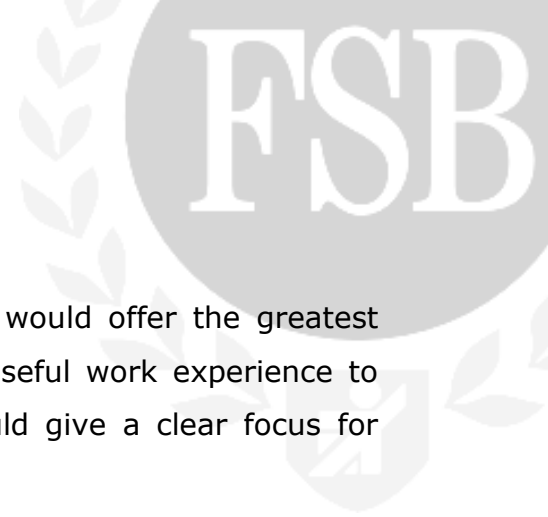
Universities have rightly been encouraged to develop the small business job market and to increase contact between local businesses and the universities. But there has been little sign that this is happening quickly enough to help graduates who have already taken their exams this year.

**The Federation of Small Businesses recommends a Graduate Internship Scheme to bring graduates and small businesses together to create work experience, create jobs and help small businesses innovate.**

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<sup>1</sup> Office of National Statistics

<sup>2</sup> Higher Education Careers Services Unit



## Internships

The FSB believes that 12-week project-based internships would offer the greatest benefit for businesses and graduates. These would give useful work experience to the graduate, and making the scheme project-based would give a clear focus for both parties.

Support would be needed for businesses to design and advertise the roles and then find an appropriate candidate. Small business owners do not have the time, or in many cases the experience, to sift through hundreds of applications. This makes a supported matching service vital.

National advertising and a website for businesses to advertise opportunities would be vital. This should also link into regional initiatives like Graduate Advantage. Analysis of small businesses that take part in graduate internships shows that 45 per cent had not taken part because they had not heard of it before<sup>3</sup>. This suggests that national marketing could massively increase the number of internships on offer.

Rather than designing a new scheme or relying on a website, which will take time and money for uncertain results, the FSB urges the Government to extend the Shell Step scheme. This is one of the biggest SME Graduate Internships in the country placing 600 students a year. In the 1990s, with Department of Trade and Industry funding, it was placing 1,500 students each year.

## FSB Recommends

The creation of a scheme that offers

- Up to three month project-based internships for graduates
- Job design and graduate matching service for employers
- National advertising
- A dedicated web site to allow employers to advertise placements
- Investment in the Shell Step Scheme to create at least 3,000 extra places
- Helpline support for graduates and employers

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<sup>3</sup> *An Evaluation of East Midlands development agency-funded student placement activity and its impact on the region's businesses 2005 – 2007.* Step Enterprises.



## Small Business Internships

- 1) **69 per cent of apprenticeships take place in Small Businesses.**<sup>4</sup> Small businesses already engage in student training after GCSEs and A Levels.
- 2) **25 per cent of small businesses believe that graduate internships would help them increase staffing during the recession.**<sup>5</sup>
- 3) **25 per cent of internships lead to offers of employment.** Another 25 per cent saw the internship extended.<sup>6</sup>
- 4) **Only 15 per cent of employees in small businesses are degree educated compared to over 30 per cent in the biggest companies.** Small businesses do not naturally attract graduates or feel confident in recruiting them.
- 5) **Over 20 per cent of graduates want to be self employed.** The FSB believes ambition to become self employed could be encouraged among graduates who have practical experience of working in a small business.

There are a number of potential benefits for small businesses which engage in internships:

- improving existing products or services
- creating new products or services
- increasing market performance from new marketing opportunities
- Gaining useful skills

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<sup>4</sup> Labour Force Survey Results 2007

<sup>5</sup> FSB employment survey June 2009

<sup>6</sup> *An Evaluation of East Midlands development agency-funded student placement activity and its impact on the region's businesses 2005 – 2007.* Step Enterprises

## Current Schemes:

### Graduate Advantage



The West Midlands has developed a graduate placement scheme. This involves two weeks of job-ready training from Job Centre Plus and businesses have access to subsidies.

The initiative aims to match unemployed graduates with employers that can offer an internship. There are 250 places available for graduating students this academic year. Each graduate will be supported through the internship by Job Centre Plus, using an

existing package of support and training that can include Job Seekers Allowance plus provisions (expenses).

There is no wage cost to the employer. The internships last between four weeks and six months and must offer graduate level project work for a maximum of 30 hours per week. Graduate Advantage has actively tried to reduce the level of bureaucracy and cost in the process for businesses involved.

### Shell Step



Shell Step currently places 600 graduates in small businesses around the UK and has been running since the 1980s.

The scheme has high levels of satisfaction from existing users and a 35 per cent return rate of businesses using the scheme in successive years. They have found that 25 per cent of their student placements receive job offers at the end of their placement.

Shell Step offers employers support in designing placements, and matches graduates with employers. There is also mentoring and support available throughout the programme to both the student and the employer.

In the mid 1990s to 2004, DTI joint-funded the scheme and it offered 1,500 placements. This has now dwindled to 600 funded only by Shell. Employers in this scheme pay around £210 a week to their students. For an eight week placement, the cost in total is around £2,000.

This year the Scheme has had 15,000 applicants from graduates looking for work.

Carol Undy, past national chairman, is the FSB liaison with Step Enterprise Ltd.



## Case Studies

### **David Miles, Director, Divadani Limited.**

Divadani Ltd does not currently have any employees although David has been an employer in the past.

"A graduate could be potentially useful if brought in to expand and do something new within the business. For example I need the time to run a marketing campaign and I don't have the time. With a graduate for twelve weeks I could get that done properly. But I'd need support to find a graduate with the relevant skills that I need and who felt confident doing this sort of project alone.

"It would benefit the graduate too by giving a high level of responsibility they might not get elsewhere."

## What Current Users Say

### **Rosalind Leeming at SpiritLevel Cinema Saving directors thousands of pounds**

*SpiritLevel Cinema Ltd* is a small business in London specialising in making documentaries, music videos and educational films. Rosalind, studying Politics and Theology at the University of Bristol, was placed with *SpiritLevel* to help launch an innovative training DVD they were developing in partnership with *Performance Equations*, but had yet to research the current market.

Rosalind had to define the product offer and how it would differ from the competition. She quickly identified 11 main competitors and produced analysis reports of their strengths and weaknesses. She researched how companies were spending their training budgets and how DVD training fitted in.

Ros produced a marketing strategy with a good analysis of the market, a step-by-step guide to direct mailing, plus a list of companies that were interested in distributing the product.

#### ***Elio Espana, owner of SpiritLevel Cinema Ltd, said***

"Ros has essentially designed the entire marketing and distribution strategy of a new business, saving the directors thousands of pounds of their own time. Ros's professionalism was faultless and she performed well above our target."



### **From Shell Step student to Managing Director**

David Beckford knows all about the value of work experience placements as he has had first-hand experience as both a student and a business leader. In 1999, David was placed at Pronto Industrial Paints Ltd in Chesterfield while studying Mathematics at the University of Warwick.

After graduating, he was offered a permanent job at Pronto and since then has risen to become Managing Director of the company which produces specialist industrial paints for a variety of markets.

David comments: "Taking part in the Shell Step Programme really helped me develop the skills I needed to enter the world of business. My placement at Pronto gave me real life and relevant experience which helped boost my confidence and CV."

Pronto still continues to employ Shell Step students every summer to work on key projects for the company.

David adds: "We recognise the value a student can bring to the business in terms of the fresh ideas and modern skills they have. The projects they work on can really make a difference to our bottom line results."

## **Costs and Benefits**

**Under the FSB proposal the Government could save £3 million in benefits and generate over £8 million in tax income.**

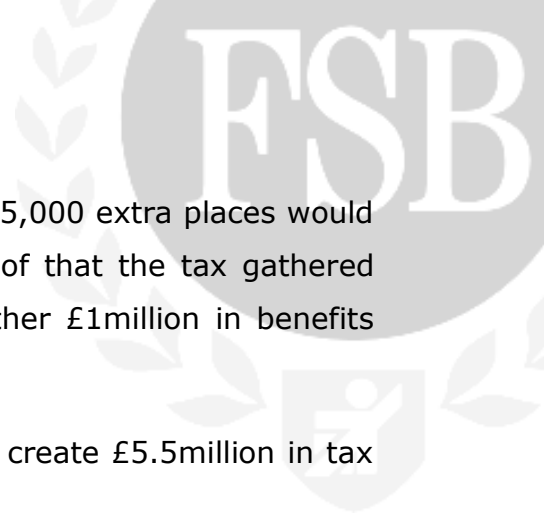
Currently a graduate on Job Seekers Allowance would receive £50.95. Over the course of a 12 week placement this would be a cost of £611.40.

If 1,000 extra placements were created it would make a saving of over £600,000 in benefits alone. If 5,000 places were created it would increase to £3 million.

Previous schemes have suggested that 25 per cent of the graduates are offered employment in the business at the end of their placement.<sup>7</sup> In small businesses these are likely to be new jobs created for the graduate rather than a planned expansion. So creating these placements directly benefits the economy. If it is assumed that these jobs are offered at £16,000 then each of these jobs would see £4,360 of tax returned to the exchequer within the first year.

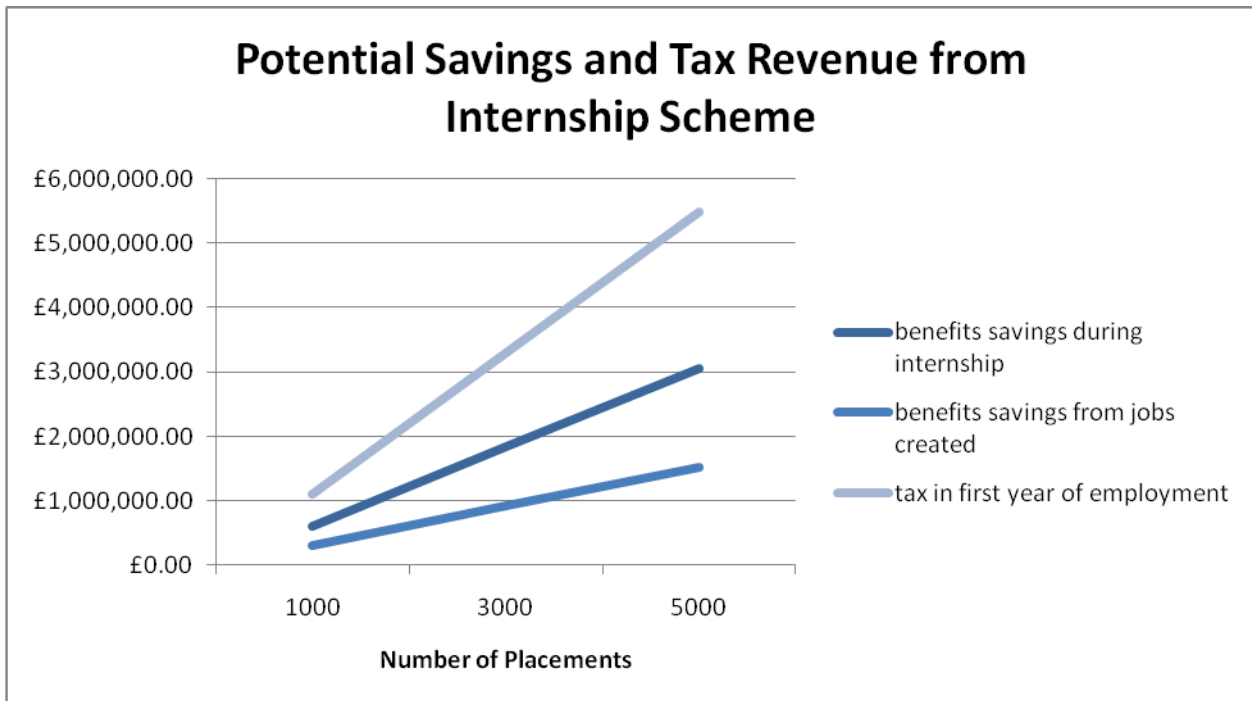
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<sup>7</sup> *An Evaluation of East Midlands development agency-funded student placement activity and its impact on the region's businesses 2005 – 2007.* Step Enterprises.



As shown in the table below the benefit savings of creating 5,000 extra places would cover the £3 million cost the FSB has suggested. On top of that the tax gathered from new jobs created could exceed £5million, with a further £1million in benefits savings, if the students had otherwise failed to find work.

In total the scheme could save £4.5 million in benefits and create £5.5million in tax revenue.

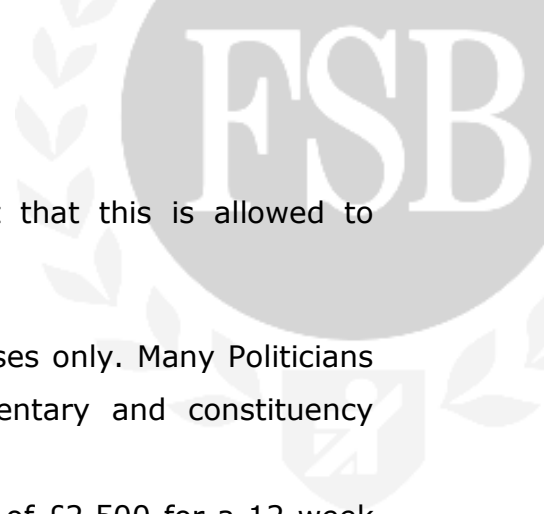


Earlier this year, universities were given £32 million to improve links with small businesses. Seven months on there is no sign of this money being used and the FSB believes that 10 per cent of it could usefully be ploughed into the scheme. It would cut costs for businesses, increase marketing and provide vital support during the internship.

### Barriers

The biggest concerns are routinely expressed by employers who currently don't have any member of staff:

**Pay:** The FSB feels that offering some financial award will encourage the graduate to take part in the scheme. However, Government should not prescribe pay levels, Businesses should be able to advertise the posts on a national website at the level they feel is fair and makes sense to their business. At the moment, internships are



offered at a range of different pay rates and it is right that this is allowed to continue.

- Internships are often unpaid or offer to cover expenses only. Many Politicians will have unpaid interns working in their parliamentary and constituency offices.
- Shell Step graduates are paid £210 a week - a total of £2,500 for a 12 week placement.
- Graduate advantage is unpaid but students continue to claim benefits.
- Apprentices in business are paid £95 a week.

**Employer Compulsory Liability Insurance (ECLI):** Businesses without employees, or family-run businesses, do not need ECLI. However, if they take on either an apprentice or intern, they would need to get insurance under UK law. This would be an additional cost and barrier to creating an internship. The FSB believes that there should be a fund administered centrally (to ensure continuity) that could provide grants to small businesses when they take on an apprentice or work experience student to cover the cost of the ECLI. The added benefit here is that once the ECLI is in place, the businesses may be further encouraged to take more students on while the insurance is in place.

**Health and Safety:** There will be changes to health and safety requirements when an employee gets involved in a business. However these can be easily overcome with a number of templates available from the Health and Safety Executive.

**Running a Pay As You Earn (PAYE) scheme:** There are some concerns about whether employers would need to use PAYE. This is particularly difficult for businesses that do not already employ. As long as payments do not exceed £95 a week they are exempt from this. However some schemes such as Shell step offer a higher wage.

The FSB believes that the schemes should be deemed an apprenticeship under the 1981 Lords ruling against Wiltshire Police Authority. This would exclude them from having to run PAYE.

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