



### Response to Consultation: East Midlands Skills Strategy (EMSS)

#### INTRODUCTION TO THE FEDERATION OF SMALL BUSINESSES

The Federation of Small Businesses (FSB) is the UK's leading non-party political lobbying group for UK small businesses. It exists to promote and protect the interests of all who own or manage their own business. With over 215,000 members, the FSB is the largest organisation representing small and medium sized businesses in the UK. The FSB has approximately 16,000 members within the East Midlands region.

#### THEME 1: THE ROLE OF SKILLS IN ECONOMIC CHANGE

**Question 1: Do you agree that the proposed areas of focus will help to ensure that skills play a role in economic change?**

Theme 1 and the proposed areas of focus are almost identical to those outlined in the Employment, Learning and Skills chapter of the Regional Economic Strategy (RES). The various iterations of the RES were written during a period of sustained economic growth. The UK has just experienced the worst economic recession for sixty years, and we are now working in a vastly different set of economic circumstances. The FSB is concerned that Theme 1 appears to be based on the principle of prolonged growth, and does not pay sufficient regard to the economic change brought by the recession.

The economic recovery in the East Midlands is tentative, and notwithstanding the risk of a double-dip recession, the economy will be in a state of recovery for some years to come. Rates of business confidence are still low, and whilst they remain low, investment in skills and jobs will also remain low. Whilst the FSB agrees that the EMSS must offer a long-term strategic view based on growth, the EMSS must also have a clear focus on supporting economic recovery in the immediate and short-term for us to return to a state of growth.

The FSB therefore believes that Theme 1 should more readily reflect the data on the economy in the *'East Midlands in 2010 – The Updated RES Evidence Base'*. The FSB also proposes that the focus for Theme 1 should be a combination of developing the skills and expertise that businesses will need to survive, recover and grow. For example, utilising the outcomes from the highly successful Survive and Thrive events, linking businesses to research and development opportunities, providing businesses with the skills and know-how to branch out into new markets, and building the confidence and skills of the workforce to increase productivity and to enable businesses to create employment opportunities that are sustainable and long-term. The FSB also believes that there needs to be an additional focus on providing school and further education leavers with the skills and attitudes they need for the workplace.

**Question 2: Have we got the right balance between provision for new economic opportunities and the skills needed to meet replacement demand?**

Whilst the FSB acknowledges that we have an ageing workforce, we also have increased unemployment caused by business closures and redundancies. According to labour market forecasts unemployment is expected to increase further over the next eighteen months,

particularly within the public sector. Previously, the issue of replacement demand was an expected shortage of skilled people to move into the jobs of retiring older age workers. The short-term issue we are now faced with is that demand for job opportunities from skilled unemployed and redundant workers is outstripping supply. The FSB believes that this section of the EMSS also needs to take account of the short-term issue of a shortage of job vacancies to meet demand from those workers with transferable skills.

The FSB disagrees with the emphasis on Level 3 and above. Small businesses have skills gaps at all levels. Businesses continue to report issues with basic skills in literacy, numeracy and IT. There is also significant demand for replacing retiring workers with apprentices at Level 2, and investing in their further training and development. A common issue reported by FSB members is that there is a shortage of apprenticeship programmes in skilled professions and trades. Our members also advise us that their preference would be to train an apprentice alongside an experienced and highly skilled employee so that the skills can be imparted amongst the workforce. The FSB therefore believes that there should be an area of focus on apprenticeships, and tackling basic skills.

**Question 3: Do you agree that replacement demand and technological development is a significant issue and warrants the preparation of a strategic response for each sector? How would you propose that the strategic response is managed?**

The FSB agrees that replacement demand is a significant issue. The default retirement age is increasing to 66 years, meaning that employees will be staying in their job for longer. FSB research on the default retirement age in November 2009 revealed that two-thirds of small businesses wanted the default retirement age to be scrapped so that they could retain their skilled workers for as long as their employees were willing and able to do the job. The increase in the default retirement age will exacerbate the problem of replacement demand in future years as employees will be working even longer. A strategic response must identify how businesses can be supported to utilise the skills of their current workforce whilst also nurturing the potential talents of new recruits, especially apprentices.

The FSB believes that the EMSS should consider where technological development will come from outside of low carbon technologies, as this is the only economic opportunity referenced in the EMSS. The UK is not known as a producer of renewable energy, or renewable energy systems - other countries in Europe are leading in this field. The UK does however have a manufacturing base which produces component parts for renewable heat, light and power systems and a relatively small engineering base which can install the systems. The low carbon technologies sector was identified as a growth sector by the previous Government as an aspiration for meeting the carbon emissions reduction target. The FSB believes that the term 'low-carbon technologies' should be avoided as businesses do not understand it, and it is not an industry with which businesses would associate themselves as belonging to. The FSB therefore believes that this section of the EMSS should instead refer to support for technological advancements in the manufacturing, engineering and installation sectors.

Question 4: Do you agree that a focus on innovation, enterprise skills and leadership and management development is key to supporting economic change? If not, what areas do you think should be focussed on?

The FSB agrees with this focus, however, there also needs to be a focus on upskilling redundant workers and unemployed individuals for alternative employment or careers. The FSB would especially welcome a focus on supporting individuals to become self-employed.

Question 5: Do you believe that promoting skills at Level 3 and above is an effective method of supporting business improvement? If not, what levels and types of skills do you suggest?

The FSB disagrees with the emphasis on Level 3. The skills required by businesses cover a variety of levels not just Level 3. This is partly because of a need to tackle the basic skills needs of employees who left school without a proficient level of literacy or numeracy, but mostly because the level of training is dependent on whether there are gaps in core skills (eg. communication, administration or finance), or technical and high-level specialist skills.

The FSB firmly believes that the ‘pitching’ of skills support should be aimed at addressing the skills gaps that hinder productivity and business growth, rather than aimed at a particular skill level. Businesses simply do not think in terms of skill levels. Businesses merely concern themselves with plugging a gap in a particular type of skill that their business needs.

Question 6: What do you believe is the best way to combine employment and skills support to help those individuals facing economic exclusion?

The FSB believes that support for upskilling and redeployment is crucial during this period of economic recovery. There must therefore be a direct correlation between skills and the welfare system, so that prospective redundant workers and the recently unemployed can obtain training, advice and support to enable them to move successfully into new job opportunities as quickly as possible.

A Skills Assessment should be conducted on the individual to assess their transferable, professional and specialist skills. Any gaps in transferable and basic skills should be addressed by a series of short training programmes. Practical advice and support should then be made available to the individual on identifying alternative career paths, completing application forms, interview techniques, job search and confidence building. Some individuals will not require this full suite of advice and support, but individuals who have not applied for a job in a considerable period of time will. As evidence suggests that those individuals who have been out of the workplace for more than six months find it increasingly difficult to secure employment, it is essential that such support is provided to ‘at risk’ employees prior to redundancy, and certainly within the first two months of unemployment.

## **THEME 2: SKILLS FOR THE REGION’S PRIORITY SECTORS**

Question 7: Development of employers’ and individuals skills in enterprise and leadership and management is an important driver for all business. Do you feel that the priority sectors need a different approach?

The FSB questions the continued emphasis on the four priority sectors (Transport Equipment, Healthcare and Bioscience, Sustainable Construction and Food and Drink). Theme 2 of the draft EMSS pays little regard to the findings in ‘*East Midlands in 2010 – The Updated RES Evidence Base*’ which identified decline in the transport and construction industries in particular. Whilst construction will recover as the economy returns to growth, transport, healthcare and

bioscience are heavily dependent on public sector investment, and this investment will be substantially reduced in order to address the public deficit.

Whilst the FSB supports a focus on enterprise, leadership and management skills, we feel that the sectoral focus of the RES on these four priority groups is now outdated, and has been superseded by stark changes in the economy. The economic recession has impacted on businesses across all sectors in the East Midlands. Whilst some businesses in one sector have suffered and closed down as a result, their competitors in the same sector have flourished and are ripe for growth.

It is too early in the economic recovery to identify which industrial sectors will emerge as growth sectors within the region in the longer-term. The FSB therefore strongly believes that support should be dictated by market forces rather than by industrial sector. Thus, the FSB proposes that support for enterprise, leadership and management should be focussed on those micro, small and medium sized businesses which have a potential to grow during the economic recovery and beyond.

**Question 8: Are these actions sufficient to develop opportunities for a flexible and multi-skilled workforce in the priority sectors, in order to exploit new technology and opportunities? Are there any other interventions that we can consider?**

Given our response to question 7 above on not focussing on priority sectors, the FSB believes that in order for businesses to be in a position to exploit any new opportunities, the skills system must be responsive to their needs for technical and specialist skills.

The further and higher education curriculum does not readily cater for businesses with skills gaps in highly technical fields, and businesses have to struggle on their own to find the particular course they need from a specialist training provider, often at a substantial cost.

**Question 9: Can you suggest any further action to ensure that variations in the supply of skilled labour at a sub regional level meet the demands of local employers in the priority sectors?**

The skills needs of small businesses do not generally differ from one sub-region to another, nor from an urban to a rural location. For example, the skills needs of a manufacturing business in the city of Leicester will invariably be the same as those of a manufacturing business in the Derbyshire Dales: a combination of skills gaps in generic skills such as management or finance, and a need for technical skills (although the particular technical skills gaps may differ depending on what products the two businesses manufacture).

What is more important is how and where the training is delivered. Businesses that are located in the urban parts of the region have more choice on the training that is available to them locally, whilst businesses in rural locations are more restricted because of geography. The FSB believes that businesses should not be penalised on their choice of skills and training by where their business is based.

Our survey data shows that small businesses still favour short, tailored training provision that is delivered on their business premises as this is the most cost-efficient form of delivery from the business perspective, and has less of an impact on their productivity rates than training delivered off-site. In the East Midlands, 64% of our members employ less than five people. Losing just one employee on a day's training per week at a training provider's premises equates to an automatic reduction in productivity of 20% each week for these micro-sized businesses.

The FSB therefore advocates a skills system that delivers more short courses in a more flexible and innovative manner to minimise the impact of training on business time and business productivity.

### THEME 3: PROGRESSION

Question 10: Do you feel we have adequately addressed the strategic issues which affect individual skills progression within employment? If not, what other areas do you feel should be included?

The FSB believes that Theme 3 demonstrates a better understanding of business than Themes 1 and 2. However, the FSB disagrees with the statement that “the higher the qualification level the more employable an individual becomes”. As previously stated in our response to question 5, it is the type of skill that matters most to a business, not the level of skill. Small businesses are far more likely to employ an individual with a Level 3 qualification in a technical skill that their business values, than an individual who has a degree in an unrelated subject. When recruiting, businesses look for candidates that can demonstrate the types of skills and level of experience that the vacant post and their business requires. Levels of skills are a secondary consideration.

Whilst the FSB welcomes the emphasis of Theme 3 on technical skills, and the importance of supporting young people through training and employment, there needs to be a greater balance with individuals aged 19 years and above. Skills gaps exist in all age groups, and a successful and productive business will invest in the skills development of all workers regardless of age or profession.

Question 11: Do you believe that linking the Regional Commissioning Statement for 16-19 with the priorities in the East Midlands Skills Strategy will ensure that we have a skilled workforce for the future? If not, what more do you think should be done?

The FSB agrees that the EMSS should link to the Regional Commissioning Statement for 16-19. However, the FSB also suggests that the EMSS should also link to the national curriculum in schools so that education and training is centred on developing core employability skills and behaviours that are required by businesses, as well as providing the technical and specialist skills demanded by specific professions.

Question 12: Do you believe that a focus on skills utilisation by helping businesses to use cohesive packages, will lead to improved business performance across all sectors? If not, how would you suggest that skills utilisation is improved?

The FSB is not sure of the phrasing of this question. Terms like ‘skills utilisation’ and ‘cohesive packages’ are best avoided in any correspondence with businesses as they could cause confusion. The FSB does however believe that skills development and delivery should have the sole aim of addressing the skills gaps that exist in businesses in a way that best meets the requirements of the individual business, and which will help their business to improve. This means delivering shorter courses which are tailored to the topics or subjects that each individual business needs, and in a flexible way that will minimise the time and resource costs for the business.

Question 13: Do you believe that there need to be increased links between business, further and higher education in order to increase opportunities for skills acquisition and progression for those currently in employment? How would you propose to improve these linkages?

The FSB firmly agrees that there needs to be more interaction between businesses and further and higher education, if only to educate the training providers on what businesses want and how they want it to be delivered.

For over a decade the skills system has purported to being demand-led, yet small businesses consistently complain that they either cannot access the specific training they need for their workforce, or that they are offered lengthy qualification based courses that either do not adequately match their skills needs, or which duplicate aspects of training that have already been delivered through private training provision. All too often, small businesses are left confused by the plethora of training programmes that are on offer, but frustrated because the programmes are generic and ‘one size fits all’ rather than tailored to their particular requirements.

The FSB appreciates that it is difficult for further and higher education institutions to actively make contact with the high volume of small businesses in the region. The FSB therefore suggests that better linkages are made by further and higher education institutions with the business representative organisations in the East Midlands, like the FSB. The business representatives are able to impart knowledge and expertise of business issues including skills needs, and they are also able to effectively communicate key messages from the institutions to several thousand businesses across the region.

Question 14: How would you propose that the region supports those who are out of work to become “informed learners”?

As stated previously in our response to question 6, the support should be focused on upskilling the individual, and providing them with advice and support on identifying alternative career paths, job search, job application techniques and confidence building.

#### **THEME 4: IMPROVING THE QUALITY AND RESPONSIVENESS OF SUPPLY**

Question 15: Can you identify other actions that might improve the responsiveness of supply in the context of changing demand?

The skills needs that businesses have now are not entirely different from the skills needs that they had several years ago. Businesses continue to call for skills and training programmes to directly match the specific needs of their business, and for skills and training to be delivered in a flexible and convenient way.

The education system has become proliferated with lengthy qualification courses which do not readily match the needs of the business. The FSB believes that a better approach would be to develop accredited units or modules of learning, which can be amalgamated into a whole qualification. This would allow employees and businesses to select the units or modules that would be of most benefit to them and allow them the flexibility to undertake additional units to build-up to a full qualification at a time convenient to the business.

Question 16: What further actions can you suggest to improve the integration of employment, skills, information, advice and guidance in order to tackle economic exclusion?

The FSB offers no additional comments to those outlined in the previous responses.

Question 17: What kind of skills do you feel that young people need to make them work ready?

The FSB believes that young people should leave the education system with proficiency in literacy, numeracy and IT skills. It is also essential that school, further and higher education develops a generic skillset that will be required for any job. This skillset includes verbal and written communication, team work, problem-solving, organisation and planning, meeting deadlines and working under their own initiative. These are the skills which FSB members often identify as lacking in young people. In addition to this, FSB members also identify key behaviours that they expect from all of their employees and new recruits: a positive attitude, a work ethic, a sense of responsibility and consideration for others.

Question 18: Are the areas of focus identified above appropriate to the needs of urban, rural and remote communities? If not, do you have any further suggestions?

The FSB agrees that the proposed areas of focus under Theme 4 are relevant to all parts of the East Midlands, although we disagree with the emphasis on tackling a lack of Level 2 qualifications in specific parts of the East Midlands, as this issue is relevant to cities, towns and counties across the region.

Under current skills delivery mechanisms, individuals and businesses in rural and remote areas have unequal access to skills and learning as it is more costly for the business to send employees off-site to train, and seemingly more costly for the training provider to deliver the training at the business premises. The FSB believes that where possible, technology should be exploited to provide training to businesses in a non-traditional format, such as through the use of web-based seminars. However, the FSB also asks that consideration is given as to methods of delivering more face-to-face training on business premises in a cost efficient way.

Question 19: Can you suggest any further actions for skills delivery to meet the growing challenge of an ageing workforce and replacement demand?

The FSB offers no additional comments to those outlined in the previous responses.

**END**