

# SMALL BUSINESS, BIG HEART:

BRINGING COMMUNITIES TOGETHER



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# ACKNOWLEDGEMENTS

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# WHO WE ARE

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The Federation of Small Businesses (FSB) is the UK's leading business organisation. Established 45 years ago to help our members succeed in business, we are a non-profit making and non-party political organisation that's led by our members, for our members. Our mission is to help smaller businesses achieve their ambitions. As experts in business, we offer our members a wide range of vital business services, including legal advice, financial expertise, access to finance, support, and a powerful voice in government.

FSB is the UK's leading business campaigner, focused on delivering change which supports smaller businesses to grow and succeed. Our lobbying arm starts with the work of our team in Westminster, which focuses on UK and English policy issues. Further to this, our expert teams in Glasgow, Cardiff and Belfast work with governments, elected members and decision-makers in Scotland, Wales and Northern Ireland.

# “ Small businesses at the heart of their communities ”

## 89%

of **small business employers** offer all or some of their **staff flexible working arrangements**



## 80%

of **FSB members** have **contributed** to their **local community or charity** in the past three years



## 78%

of **small employers** have at least one worker **aged over 50**

### What do **small businesses** do for their **communities**?



## 38%

**Donate time**



## 32%

**Contribute skills**



of all **small employers** have **taken on at least one worker** from a **labour market disadvantaged group** in the last three years

## 95%

### SME/community engagement



Proportion of **FSB small businesses** that have **volunteered** for or **contributed** to their **local community or charitable causes** in the last 3 years, by region



## 41%

of **small business employers** offer **work experience** either as part of the **recruitment process** or through their **community outreach**

# CONTENTS

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Foreword . . . . .	5
Executive summary. . . . .	6
Key findings . . . . .	8
Recommendations . . . . .	9
Part 1: Supporting communities . . . . .	14
Small businesses and community engagement . . . . .	14
Social Value Act and using the lever of public procurement . . . . .	23
Part 2: Supporting labour market disadvantaged groups . . . . .	25
Young people . . . . .	27
Older workers . . . . .	32
Race and ethnicity in self-employment and SMEs . . . . .	38
Ex-offenders in small businesses . . . . .	44
Part 3: Good Work including flexible working . . . . .	47
Part 4: Supporting work and health. . . . .	55
Disability and mental health. . . . .	55
Managing sickness absence . . . . .	59
Occupational health . . . . .	62
Part 5: Supporting service leavers . . . . .	65
Methodology . . . . .	68

# FOREWORD

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Small businesses and the self-employed are so often the heartbeat of their communities, through their volunteering activities, support for local schools and colleges, and their willingness and ability to employ those furthest from the labour market.

For any business, ‘time’ is king. However FSB research conclusively shows that smaller firms are remarkably generous in contributing their time towards the greater good within their communities. Small businesses must, therefore, be given the regulatory, economic and physical space and support to thrive. Policy makers must carefully consider the economic costs of any new legislation and the opportunity costs associated with poorly-designed regulation and reporting requirements. These costs negatively affect UK productivity but, at a local level, they also rob communities of an integral source of support. Policy makers must also embrace new ways of measuring and rewarding the value that smaller businesses create for their communities through, for example, reducing social exclusion, improving health and wellbeing, increasing employability, creating better access to services, improving the local environment and creating greater community cohesion. The particularly important role that smaller businesses play in rural areas and fringe towns should not be underestimated.

Small businesses are agents of social change. They provide jobs, skills and training for those furthest from the labour market including young people and older workers, those with disabilities and mental health conditions, and those with low levels of educational attainment. Policy makers must recognise, reward and capitalise upon the invaluable role that smaller businesses play in supporting social mobility, wellbeing and fuller working lives. For this to be achieved policy makers must understand smaller businesses and how they promote good quality work. For example, smaller businesses often deliver flexible working through informal rather than formal processes. Small businesses can operate this way because of the personal relationships and bonds of trust fostered within their close ‘family’ environments.

The UK Government must expedite policy interventions to support smaller businesses to make real inroads into reducing the disability employment gap. Measures to support smaller firms to deliver work experience, apprenticeships and work placements (on which T-levels depend) are just as important to promote social mobility. Creating an inclusive workforce and UK economy that works for all – whatever an individual’s background and wherever they live – means reaching out to all groups that need help and support to thrive. Measures to help smaller businesses to employ ex-offenders, or to help service leavers consider the rewards of setting up their own business, have the potential to be game changers. And for certain ethnic minority groups which are disproportionately affected by unemployment, self-employment offers a chance to fulfil their potential, either in of itself or as a route into employment. We should not underestimate the power of inspiration and role models and we need a business support system that capitalises upon this.

Why does this matter? Because now more than ever we must find what binds us together, rather than what divides us. It’s the right thing to do, but it also makes economic sense. After all, boosting productivity is as much about diversity, flexible working, job design, employee engagement, and promoting wellbeing, as it is about infrastructure and digital technologies.



**Sarah Green**  
FSB Communities Policy Chair

# EXECUTIVE SUMMARY

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Smaller businesses are very often the heartbeat of their communities up and down the United Kingdom, but more needs to be done to understand the exact nature of their contribution, beyond the products and services they provide as part of their day job. The UK Government's vision is one of better connected communities, more neighbourliness, and businesses of all sizes, which together strengthen society. This report demonstrates the extent to which small firms support and contribute to solving a number of challenges faced by our local communities. In it, we share insights gathered through in-depth survey work and qualitative evidence, collected from interviews with FSB members.

This report is split into five parts. The first section explores how smaller businesses contribute to their community and how they can be supported to do even more. The second part of this report focuses on smaller businesses as employers of labour market disadvantaged groups. Part three focuses on smaller businesses' contribution to 'Good Work', for example in offering flexible working. Part four explores the issues many smaller businesses face in relation to the health of their employees. Finally in the spirit of supporting inclusivity, the final part of this report focuses on how service leavers can be encouraged to explore the opportunities and rewards provided through being self-employed.

## Contribution to communities

FSB research found that small business community engagement is extensive across the country, with 80 per cent of FSB members stating they have volunteered and/or contributed to a local community organisation or charitable cause in the last three years. Our evidence suggests that small firms create strong civic engagement networks, which may help to foster greater trust within communities and, as a result, encourage more people to work together to help the community as a whole.<sup>1</sup> Despite their day-to-day pressures, many smaller firms are committed to utilising their resources, skills and time in giving back to their local community.

In addition to the direct costs of new regulatory requirements for smaller businesses, policy makers must ensure they fully consider the indirect opportunity costs associated with any additional administrative burdens (for example as a result of tax and regulatory changes). Time spent trying to implement poorly designed or not well understood regulation takes away from the time that smaller businesses can spend contributing to their community.

## Labour market disadvantaged groups

For communities to thrive, the 16.3 million people employed within small businesses must also thrive. The agility and adaptability of small firms means they are not only able to provide effective business 'in-kind support', such as donating resources to community organisations – especially in hard to reach areas – but they also act as a gateway into employment for those furthest away from the labour market. This includes people with disabilities, those with low levels of educational attainment and older workers. As the proportion of workers aged 50 and over continues to rise, so does the number of older workers employed in small businesses.

Unemployment is at record low levels, but we are far from real 'full' employment. The UK Government has the opportunity to fulfil the Conservative Party manifesto (2017)<sup>2</sup> promise to incentivise small businesses to employ the most labour market disadvantaged people in our communities, by offering firms a one-year Employers National Insurance Contributions 'holiday' when they recruit from these groups.

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<sup>1</sup> Office for National Statistics, Social capital in the UK: May 2017.

<sup>2</sup> Forward Together: The Conservative Manifesto 2017.

## Good work and work and health

Smaller businesses need greater support to enable them to contribute even more to the Good Work agenda and overcome challenges related to work and health. This is particularly important with regard to the employment of older workers and people with disabilities. Small businesses require a range of measures to assist them throughout the employment life cycle. The top three interventions small businesses would find helpful to employing staff are:

- Employer National Insurance Contributions holiday for one year for employing labour market disadvantaged groups
- Access to funds for workplace and non-workplace learning
- Ability to Reclaim Statutory Sick Pay (Percentage Threshold Scheme was abolished in 2014)

To realise the Good Work agenda for all workers, policy makers must focus on supporting smaller businesses to deliver on the '3Rs', recruit, retrain and retain. This reports sets out various interventions which would help smaller businesses to achieve this.

# KEY FINDINGS

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## Community

- 80 per cent of FSB members have volunteered and/or contributed to a local community organisation or charitable cause in the last three years. Of those that have, the most common ways to contribute are by donating their time (38%) and providing skills, resources and mentoring (32%).
- 27 per cent of FSB small businesses hold a position within their local community.
- 42 per cent of small businesses engage with schools, colleges and youth organisations.
- 41 per cent of small business employers offer work experience either as part of the recruitment process or through their community outreach.

## Employing labour market disadvantaged groups

- 95 per cent of FSB small business employers have employed at least one worker from a labour market disadvantaged group in the last three years, some of which include those:
  - Aged 16-24 (58%)
  - Aged 50 or above (78%)
  - With a known disability or mental health condition (30%)
  - With low levels of educational attainment (34%)
  - With English as a second language (24%)
  - Labour market returners (23%)

## Good Work and flexible working

- 89 per cent of FSB small business employers offer all or some of their staff flexible working arrangements, including:
  - Flexi-time or staggered working (63%)
  - Reduced working hours (61%)
- Of those that have flexible working, 71 per cent recognise the benefits this has had, including:
  - Reduction of staff absences (44%)
  - Creation of new business processes (44%)
  - Additional business cost savings (39%)
- Of those that offer flexible working, 36 per cent say that providing staff with greater autonomy led to the creation and/or development of a new product.

## Work and health

### Disability and mental health

- 11 per cent of FSB small business employers have at least one worker with a disability and 19 per cent employ at least one person with a mental health condition.
- Those that do are much more likely to provide flexible working to all staff (80% compared to 69% for all small employers).

### Managing sickness absence

- 27 per cent of FSB small business employers have experienced short term health absences, 30 per cent have reported employee sickness lasting at least four consecutive days.
- 34 per cent say sickness absence has cost more than £1,000 in the last 12 months. For those that employ over 65s, this figure rises to 41 per cent.

### Occupational health

- 10 per cent of FSB small business employers offer occupational health support.
- 41 per cent say they do not know enough about occupational health.

# RECOMMENDATIONS

## Part 1: Supporting communities

### UK Government should:

- Deepen its understanding of the social impact of smaller businesses in their communities.** The extensive work of small businesses in their communities must be a central factor in the development of the small business policy framework, i.e. the formation of policies on issues such as tax, regulation, education, local government and infrastructure. Government must recognise the wider social impact of small businesses – beyond the economic – in tackling key societal issues such as ageing demographics, loneliness, wellbeing and social mobility.
- Ensure there is a small business champion on the Responsible Business Leadership Group.** Small businesses are embedded in their communities, trusted by local people and are there for the long term. Government must work to better understand the role that small businesses play, to better inform its place-based approach to the Industrial Strategy, the Inclusive Economy Partnership, the Civil Society Strategy, and Integrated Communities Strategy.
- Explore the potential for ‘Community Zones’ (following the model of Enterprise Zones).** For small businesses operating outside urban centres and business hubs, the costs of doing business are often greater due to poor infrastructure, cost of transport and lack of economies of scale. However, these small businesses have a significant social impact and support their communities to be more resilient. Government must recognise the challenges these businesses face and, equally, celebrate the critical role they play.
- Carry out a feasibility study for an online tool to promote understanding of the Social Value Act, working closely with stakeholders.** The online tool could be used to educate commissioners and smaller firms about what can constitute social value within the context of the Act (without being overly prescriptive) and help to create a level playing field across public procurement. It should also include a self-audit tool to support smaller businesses to understand their social value maturity within the context of the Social Value Act.

## Part 2: Supporting labour market disadvantaged groups

### UK Government should for:

#### *Labour market disadvantaged groups*

- Introduce a one-year Employer National Insurance Contributions holiday for smaller businesses employing labour market disadvantaged groups.** UK unemployment is at record lows, but we are far from ‘real’ full employment. The NI holiday would fulfil the Conservative Party manifesto promise to incentivise small businesses to employ the most labour market disadvantaged in our communities.

#### *Young people*

- Reintroduce the principle of compulsory work experience, allowing for flexible models that work for smaller businesses.** The end of compulsory work experience in England in 2012 for students at Key Stage 4 was arguably detrimental to the employability of young people and the education to employment transition. Head Teachers and Career Leads must have the freedom to engage with smaller businesses in their community (perhaps via Career and Enterprise Company Enterprise Advisors) to develop appropriate work experience and, more generally, employer touch point models that are tailored to the needs of the local community. If the principle of compulsory work experience cannot be introduced, at the very least statutory guidance to schools and colleges should be revised to include a “right to be offered” a substantive work experience placement at Key Stage 4.
- Support smaller businesses to take on apprentices.** Government must make the 20 per cent off-the-job training work for smaller businesses, including those in rural areas and fringe towns.

- **Incentivise smaller businesses to deliver work placements by matching the industry placement fund for providers of T-levels with a fund for small employers.** Work Placements are an integral part of T-levels but the 45-day work placements are a significant burden for small employers. The UK Government must provide clear financial incentives and guidance to enable small businesses to provide these work placements – especially those in rural, coastal and remote communities.
- **Supporting employer engagement.** The Department for Education (DfE) should extend eligibility for travel bursary funding to young people under the age of 16 to help them access a wider range of local employers. DfE should publicise the fund and ensure that information about eligibility and the application process is communicated clearly to young people and those supporting them. It should commit to communicating this via schools, colleges and the redesigned National Careers Service website. The Careers and Enterprise Company, which has recently joined the Skills Builder Partnership, should work closely with organisations such as FSB to achieve the ambition of increasing the number of Enterprise Advisors from 2,000 to 4,000. A variety of communication channels must be utilised to reach smaller businesses including through the use of existing civil and community organisations. The merger between SkillsBuilder and the Careers and Enterprise Company will allow for a shared language and outcomes.

### **Higher Education**

- **Promote the Small Business Charter (SBC).** To support this ambition, more must be done to promote the Small Business Charter award, which gives recognition to business schools that play an effective role in supporting small businesses, local economies and student entrepreneurship.
- **Build bitesize learning into the design of management and leadership training.** Smaller businesses may benefit from more of an escalator approach, whereby their initial financial and time commitment is relatively low. If they see benefits from the training, they are then in a position to be able to ‘ramp up’ and buy the second round or module of training. This should be taken into consideration by policy makers who are designing leadership and management training, following the announcement of an additional £11 million of funding by the Chancellor in the Autumn of 2018.<sup>3</sup>

### **Older workers**

- **Target the mid-life MOT on those most in need.** The mid-life MOT has the potential to benefit the self-employed in assessing their skills levels, evaluating their health and wellbeing, and planning ahead for retirement. The mid-life MOT has the ability to link current and proposed policy interventions, such as a £10 million training pilot in Greater Manchester with occupational health support. For the mid-life MOT to help those most in need, the Department of Work and Pensions (DWP) should initially focus on a targeted messaging campaign highlighting the benefits of a MOT to specific sub-groups of the self-employed and workers. Government should commit funds to extend the pilot amongst the self-employed and small firms. There should be a continuation of investment to support face to face or telephone advice support, as an investment in an online resource alone will not act as a sufficient intervention. This will benefit small businesses that do not have access to HR support.

### **Ethnic minorities**

- **Introduce a dedicated scheme to help ethnic minority-led businesses to access external finance.** Alongside awareness-raising, a dedicated scheme – similar to the now defunct Aspire Fund – would help more ethnic minority-led businesses access the finance they need to grow. A scheme targeted at women from certain ethnic minority groups could make a real difference.

3 HM Treasury, Budget. 2018.

- **Create effective mentoring circles for ethnic minority women who have experienced long-term unemployment and who may have English as a second language.** This should be rolled out across the JobCentre Plus network, similar to the current initiative for ethnic minority youth jobseeker plus claimants. Role models can play a powerful role in inspiring individuals to seriously think about self-employment.

### **Ex-offenders**

- **Provide a one year Employer National Insurance Contributions holiday for small businesses employing an ex-offender.** This will not only act as an incentive for smaller firms to recruit more ex-offenders, but will also enable smaller firms to deal with some consequences which may arise from hiring an ex-offender, e.g. an unforeseen absence from work to resolve housing issues. It would also support small business employers to upskill ex-offenders.
- **Enhance the New Futures Network scheme.** The New Futures Network Scheme should leverage and enhance the good work of charities, to help provide ongoing support to ex-offenders in employment.

## **Part 3: Supporting Good Work**

### **UK Government should:**

- **As part of the statutory evaluation of the right to request flexible working in 2019/20 deepen its understanding on the ways in which flexible working is secured in smaller businesses.**<sup>4</sup> The review, proposed by the Department for Business, Energy and Industrial Strategy (BEIS) in 2019/20, should seek to better understand the nature of flexible working offered by smaller businesses. In particular, the review must not lead to legislation that creates unintended consequences in relation to the ability of small businesses to offer flexible working through informal means.
- **Promote new-to-firm innovation amongst smaller businesses to support flexible working and support the development of digital skills.** There should be a particular focus on the adoption of digital technologies, the development of digital skills, and the enhancement of management and leadership capabilities.

### **The Industrial Strategy Council should:**

- **Ensure that the measurement of flexible working, as part of the measuring Good Work agenda, contains metrics designed to capture the informal ways in which flexible working is agreed within many smaller businesses.** FSB agrees that the measurement of good work is important. We support the Government's decision to request that the independent Industrial Strategy Council provides further advice on how best this can be achieved, building on the work led by Matthew Taylor.
- **Ensure the self-employed are not excluded from the commitment to measure the quality of work.** The daily experience and expectations of work for self-employed people often differs from those in employment. The nature of self-employment can increase the risk of loneliness and exacerbate existing mental health conditions, for example due to the fear of ill health or cash flow volatility. Therefore, FSB welcomes the commitment in the *Measuring Good Work: The final report of the Measuring Job Quality Working Group* to include, in a relevant way, the self-employed in the measurement of good work and the drive to improve the quality of work.<sup>5</sup>

<sup>4</sup> HM Government, Good Work Plan, December 2018, available at [https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/766167/good-work-plan-command-paper.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/766167/good-work-plan-command-paper.pdf).

<sup>5</sup> Measuring Good Work: The final report of the Measuring Job Quality Working Group (2018).

## Part 4: Supporting work and health

### UK Government should:

- **Continue to promote Access to Work.** This should include awareness raising and myth-busting. For example, many businesses are not aware that micro and small businesses (less than 50 employees) are exempt from employer contributions to Access to Work. In order to improve Access to Work further, Government should act to ensure that processing and payment times are reduced, making it possible to claim for employer and staff time in both processing the application and providing reasonable adjustments.
- **Create a new level 4 within the Disability Confident Scheme.** A new level 4 should be created where accreditation depends on achieving actual job outcomes. This would enable small businesses with a proven track record in the recruitment, progression and retention of employees with disabilities to claim recognition at level 4. The current levels 1 to 3 can disadvantage smaller businesses because they rely more on the measurement of processes and procedures.
- **Introduce a one-year Employer National Insurance Contributions holiday for smaller businesses employing people with disabilities and with mental health conditions.** UK unemployment is at record lows, but we are far from real full employment. A one year NI holiday would fulfil the Conservative Party manifesto promise to incentivise small businesses to employ those furthest from the labour market.
- **Support small firms in delivering a phased return to work through Statutory Sick Pay, on a voluntary basis. More broadly SSP should be reformed to incentivise employers to engage in good practice in helping their employee return to the workplace.** Government should consider revising existing legislation so that the operation of SSP does not dis-incentivise employers who are doing the right thing by enabling their staff to return to the workplace at a time that suits both parties. The Percentage Threshold Scheme (PTS) should be reinstated, perhaps through a model that links PTS support with small firms who can demonstrably show good practice in helping employees return to the workplace, for example through a phased return to work. This would send a clear message that Government is willing to help small businesses support their staff, and to embed best practice. A significant proportion of employees within small businesses work on a part-time basis (37%). If a phased return to work is to be incorporated into SSP, it must be easily incorporated for those who work part-time and for those who work flexibly. Engaging employers in a return to work plan is essential as they need to be directly involved as only the employer will know what is or isn't possible in their workplace.
- **Explore the potential for tax breaks to incentivise occupational health within small firms.** This would encourage smaller businesses to pay for occupational health and may, in turn, ease the burden on an under-pressure NHS. Such an incentive may lead to increased output, efficiency, employment and productivity.
- **Provide specific support for smaller businesses to access the occupational health market.** The occupational health market is fragmented and very difficult to navigate. Government should further consider how to improve the awareness and knowledge of occupational health and occupational health products by improving advice (perhaps through an advice line), accessibility (perhaps through a portal) and support both at a national and local level.
- **Implement better occupational health through supply chain pilots.** These pilots should focus on scalable interventions that incentivise larger companies to provide access to occupational health for smaller businesses within their supply chains. Supply chains can play an instrumental role in improving access to occupational health within small firms. A smaller business could benefit from access to the resources, support and training that larger companies may have available to support staff with a disability or mental health related issue.

- **Provide dedicated funding for self-employed occupational health pilots.** These pilots should focus on scalable interventions to support the self-employed to access occupational health and to provide a cash flow during a period of ill health. The self-employed in particular lack access to occupational health services. Many are left vulnerable when they find out the NHS does not provide help in this regard. The UK Government should support the development of self-organising models (e.g. Bread Funds) where the self-employed are able to come together under the umbrella of a legal structure, i.e. where an organisation is specifically created to enable the self-employed to cooperate to enable them to access help and support in the event of ill-health.<sup>6</sup>

## Part 5: Supporting service leavers

### UK Government should:

- **Promote the benefits of self-employment to service leavers.** This can be done through ensuring clear and coherent information about self-employment and its benefits and risks is included in the career guidance offer provided to service leavers by the MoD's Career Transition Partnership (CTP). Government should also ensure that support is offered on a longer-term basis. This is because many service leavers often shift to self-employment some time after leaving the armed forces.<sup>7</sup>

<sup>6</sup> RSA, The Self-Organising Self-Employed: Empowering grassroots collaboration in the new Economy, available at <https://www.fsb.org.uk/docs/default-source/fsb-org-uk/self-organising-self-employed---final.pdf?sfvrsn=0>.

<sup>7</sup> Lyonette, C., Barnes S-A and Owen, D. Self-employment and the Armed Forces Community. 2018.

# PART 1: SUPPORTING COMMUNITIES

## Small businesses and community engagement

In this chapter we provide an insight into small business community participation based on empirical evidence.

### Policy context

Government has highlighted the importance of sustainable, prosperous communities through developing a number of policies focused on communities, particularly their ability to create social impact and social value. A non-exhaustive list is set out below:

- Civil Society Strategy (Cabinet Office)
- Inclusive Economy Partnership (Cabinet Office)
- Integrated Communities Strategy (DCLG)
- Public Services (Social Value) Act 2012
- UK Shared Prosperity Fund (BEIS)<sup>8</sup>

The Civil Society Strategy sets out how the UK Government will work with and for civil society in the long-term to create a country that works for everyone. It states:

*“We want to take the role of responsible businesses further. We are exploring new opportunities for responsible businesses to connect with the social sector to tackle social challenges...”*

*“...a responsible business might be seen as one which genuinely invests in and becomes part of the communities in which it operates.”*

The distinction between social impact and social value is not well established. Unless explicitly stated otherwise - for the purpose of this report - we use the terms social impact and social value interchangeably. Therefore we are defining social value in its broadest sense, namely to provide benefits for a community, for example, in relation to happiness, wellbeing, inclusion, equality and employment.

One of the key issues in the UK Government’s Industrial Strategy is ‘places’. Many places in the UK are not realising their full potential. The UK has greater disparities in regional productivity than other European countries.<sup>9</sup> Many of our communities have been left behind and, in these areas, small businesses have often stepped in alongside social enterprises and charities to provide support across a number of issues, such as wellbeing and education.

Small businesses play a key role in the implementation of place based strategies. The identification of skills gaps, improvements to transport links and digital infrastructure all have a particular geographical importance to small firms. Separating policy and place may not only lead to ineffectual solutions in these areas, but it may also impact the ability of small firms to tackle a number of social challenges, such as loneliness and a lack of social mobility. Small businesses can make an important contribution to place based social action.

Smaller businesses have close relationships with their employees and, more broadly, their local communities. They are uniquely positioned to tackle a variety of social challenges. In order to maximise the ability of small businesses to drive change within their communities, we must gain a better understanding of how they contribute to social impact and social value.

The UK Government’s Inclusive Economy Partnership (IEP) brings together businesses, civil society and government departments. The IEP focuses on some of society’s toughest challenges and seeks to help all communities participate in the UK economy. As a society, we must capitalise on the experiences and contributions of small firms in tackling some of IEPs three flagship challenges – financial inclusion and capability, mental health at work, and transition to work for young people.

<sup>8</sup> Subject to Brexit.

<sup>9</sup> Martin et al. (2015), ‘Spatially rebalancing the UK economy: The need for a new policy model’, available at [http://www.regionalstudies.org/uploads/documents/SRTUKE\\_v16\\_PRINT.pdf](http://www.regionalstudies.org/uploads/documents/SRTUKE_v16_PRINT.pdf).

Currently, a number of strategic initiatives have the potential to create opportunities for actors in civil society and communities to consider their role in supporting inclusive growth. These include the design of the UK Shared Prosperity Fund and the process of developing Local Industrial Strategies, as well as the recently completed review of Local Enterprise Partnerships (LEPs).<sup>10</sup> Through the process of LEP reform, there is an opportunity to strengthen the role of local stakeholders and civil society in local decision-making structures through, for example, the appointment of LEP Small Business Champions.<sup>11</sup>

All of these initiatives are geared towards achieving key societal and economic goals for society and for business. However, there is limited recognition of the role that small businesses play in delivering social value. For these ambitious goals to be achieved, the role of small businesses needs to be at the heart of governmental policies on communities and place.

### Understanding how and where small businesses contribute to their communities

According to the latest Government figures from the start of 2018, there are 5.6 million small firms in the UK, accounting for 99.3 per cent of all private sector businesses.<sup>12</sup> SMEs are dominant in contributing to GDP, creating 51 per cent of all private sector turnover (£1.9 trillion). SMEs also account for at least 99.5 per cent of the businesses in every main industry sector.<sup>13</sup>

In addition to the economic benefits that small businesses provide, they are also integral in creating social value within their communities. According to Nesta:<sup>14</sup>

*“...the impact of SMEs is not purely economic; the contribution of SMEs to the wider community can be about a lot more than jobs and wealth. Similarly, it is more than the mere economic environment that can affect the decisions and success of small businesses...”*

*“However, it is important to recognise that they have a role which extends beyond this, but is much harder to quantify. Many interviewees pointed to three functions of SMEs in particular: innovation, the economic resilience resulting from sector diversification, and community cohesion.”*

FSB’s latest quantitative and qualitative research suggests the definition of responsible small business may include, but is not limited to:

- providing services and products for local residents to create vibrant communities and enhance perceptions of wellbeing in communities;
- contributing time, skills and resources to provide community leadership and volunteering;
- innovating to develop societal solutions by bringing in new ideas and resources;
- employing people furthest from the labour market.

<sup>10</sup> Ministry of Housing, Communities & Local Government, Strengthened Local Enterprise Partnerships, available at <https://www.gov.uk/government/publications/strengthened-local-enterprise-partnerships>.

<sup>11</sup> FSB report, The Future of Local Enterprise Partnerships: The Small Business Perspective, available at <https://www.fsb.org.uk/docs/default-source/fsb-org-uk/policy/assets/fsb-making-leps-support-small-business-better-exec-summary.pdf?Status=Master&sfvrsn=0&Status=Master&sfvrsn=0>.

<sup>12</sup> Department for Business, Energy and Industrial Strategy, Business Population Estimates for the UK and Regions 2018, available at [https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/746599/OFFICIAL\\_SENSITIVE\\_-\\_BPE\\_2018\\_-\\_statistical\\_release\\_FINAL\\_FINAL.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/746599/OFFICIAL_SENSITIVE_-_BPE_2018_-_statistical_release_FINAL_FINAL.pdf).

<sup>13</sup> UK Small Business Statistics, available at <https://www.fsb.org.uk/media-centre/small-business-statistics>.

<sup>14</sup> NESTA, The state of small business: Putting UK entrepreneurs on the map, available at <https://www.nesta.org.uk/documents/590/the-state-of-small-business-uk.pdf>.

Our data shows that small business community engagement is extensive across the country, with 80 per cent of FSB members stating they have volunteered and/or contributed to a local community organisation or charitable cause in the last three years. Figure 1 shows that this engagement is high across all parts of the UK.

**Figure 1:** Proportion of FSB small businesses that have volunteered for or contributed to their local community or charitable causes in the last three years, by region.

**Source:** FSB survey, 2018



Small businesses are not 'little big firms' and therefore their approach to social responsibility is distinct from the more familiar large firm Corporate Social Responsibility (CSR) approach. This large firm approach of creating specific CSR programmes, auditing activity and focusing on external promotion of the activity does not translate well for most small businesses.<sup>15</sup> While most smaller businesses are not familiar with CSR, in contrast they do undertake Small Business Social Responsibility (SBSR). SBSR is shaped by the personal commitments of the small business owner. A business owner's decision to engage with their community is often made on the basis of personal convictions. It is often difficult to separate the individual who owns the business, from the business itself and the activities they choose to support.

<sup>15</sup> Soundararajan, V., Jamali, D., and Spence, L. (2017) Small Business Social Responsibility: A critical multi-level review, synthesis and research agenda. In *International Journal of Management Reviews*.

**CASE STUDY**

*“One of my passions is to engage with the local community in many different ways. My reasons for doing so probably come from my own experiences... there was a period of time where I didn’t have a home, so I feel it is important to give back. The business has teamed up with ‘Help the Homeless, Leicester’, working to eradicate homelessness in Leicester by fundraising and providing employment to people who come through Help the Homeless Leicester.”*

**Paul Baker, Bakers Waste Services, Leicester**

Small businesses seek to engage, act and transform, not specifically to promote their efforts, but because it is key to their legitimacy as a responsible business embedded in a local community. Although small firms face resource constraints, rather than hindering their social impact, evidence suggests it actually makes small businesses more innovative and experimental in how they engage in responsible practices. Often their enhanced understanding of the community and their extensive local social network allows them the agility to create tailored solutions.<sup>16</sup>

**CASE STUDY**

*“Our business helped set up Huddersfield Live, which organises and supports public events in Huddersfield. Our aim is to ensure that traditional community festivals are kept alive in the local area, especially at a time when funding for community events is lacking.”*

**Stafflex Limited, Recruitment agency, Huddersfield**

The ability of small firms to give back successfully is underpinned by the trust they are able to earn, in comparison to larger businesses. The 2018 Edelman Trust Barometer found that smaller, local businesses fell into the most trustworthy category because of the ‘two-way’ relationship that develops with customers.<sup>17</sup> This allows small businesses to work as part of their local community developing place based solutions. FSB evidence suggests that small firms create strong civic engagement networks utilising their local social capital, which helps to foster greater trust within communities and as a result encourages more people to work together to help the community as a whole.<sup>18</sup>

**CASE STUDY**

*“We are very involved with the local community, partly through my role as chair of the residents association. In the past we have helped organise a ‘meet your neighbour day’ with the local residents association on the local estate. Following this we now know all of our neighbours. Big businesses can’t do this because they don’t operate within their local communities and they act in a prescriptive way in relation to their community engagement.”*

**FSB member, Decorating business, London**

<sup>16</sup> Ibid.

<sup>17</sup> The business of trust, Understanding trust in business, available at <https://www.cityoflondon.gov.uk/business/responsible-city/Documents/understanding-trust-in-business.pdf>.

<sup>18</sup> Office for National Statistics, Social capital in the UK: May 2017, available at <https://www.ons.gov.uk/peoplepopulationandcommunity/wellbeing/bulletins/socialcapitalintheuk/may2017>.

## Importance of place and small business community engagement

The UK’s 5.6 million small businesses are distributed throughout the country. As a result, they are making a very significant impact, through their engagement with a whole range of different local activities in cities, towns and villages across the country; such as supporting local and national charities (77%), youth and education (42%) and business groups (25%).

FSB research demonstrates that smaller businesses are uniquely placed to identify, support, develop and lead place-based solutions because they are embedded in their communities. Their social bond with the local community, the close relationship with their employees and the trust they have developed allows them to create long term solutions.

A higher proportion of small businesses exist in fringe towns and rural areas in comparison to large businesses (Figure 2).

**Figure 2: Number and percentage of people employed in local units of registered businesses by size band of the registered business overall and rural-urban classification, in England, 2016/17**

**Source:** ONS, Inter-Departmental Business Register (IDBR) 2016/17<sup>19</sup>

	1-9 employees	10-49 employees	50-249 employees	250 or more employees
All rural town and fringe	30.8	32.0	23.1	12.0
All rural	28.6	29.6	22.5	15.7
All urban	19.2	24.8	26.5	28.7

In rural areas, small business often provide opportunities for practical integration, providing spaces for communities to meet, learn and interact.

### CASE STUDY

*“My business helps run the local film club in the village.”*

**FSB member, Accommodation and food services, Cumbria**

Research undertaken by the Centre for Towns found that, over the last three decades, UK towns and cities have experienced very different demographic trends in ageing, with around three-quarters of the increase in over 45s between 1981 and 2011 taking place in villages and small and medium sized towns.<sup>20</sup>

One of the grand challenges in the Industrial Strategy is in relation to an ageing society. Chapter 4 of this report highlights the extent to which small firms employ older workers. However, the importance of small firms to older workers isn’t solely related to employment. The demographics of our communities are changing and, as they do so, small firms are becoming disproportionately important in smaller towns and rural areas. This is particularly in areas where issues like loneliness and wellbeing can be exacerbated by a lack of resources and services.

<sup>19</sup> The Department for Environment and Rural Affairs, Statistical digest of Rural England, February 2018 Edition, available at [https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/682985/Businesses\\_February\\_2018\\_Digest.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/682985/Businesses_February_2018_Digest.pdf).

<sup>20</sup> Centre for Towns, The Ageing of our Towns, available at <https://www.centrefortowns.org/reports/the-ageing-of-our-towns>. <https://www.centrefortowns.org/reports/the-ageing-of-our-towns>.

**CASE STUDY**

*“We support nurseries, after school clubs and elderly care homes.”*

**Andrea Rogers and Gill Crawford, K9Pursuit, County Durham**

Recent research commissioned by the Eden Project initiative, The Big Lunch, found that disconnected communities could be costing the UK economy £32 billion every year and costing employers an estimated £2.5 billion a year. Loneliness can diminish productivity and creativity, both of which are so vital to the success of the small business community.<sup>21</sup> The work of small businesses in their communities – tackling issues such as loneliness, wellbeing and providing support to older groups – must be recognised by policy makers and supported by Government.

**CASE STUDY**

*“I live and work in Enfield. As a self-employed business owner I felt very isolated. I was part of various business groups, but nothing specifically for wellbeing. There were days where I wasn’t leaving the house. I then read that Enfield was voted one of the unhappiest London boroughs to live in. These factors led me to organise a wellbeing showcase in Enfield. I put together a team of five. We then contacted local businesses and local charities, such as North London Hospice and Enfield Parents and Children.*

*“The wellbeing showcase has been running for three years and brings together local businesses and local charities to engage on various issues related to wellbeing on their doorstep. The event enables people to make local connections within a diverse community. A lot of the public gain insights into the benefits of alternative medicine. Over the last three years on average we’ve had around 53 local businesses. In total, 10 of the businesses came from ethnic minority groups.”*

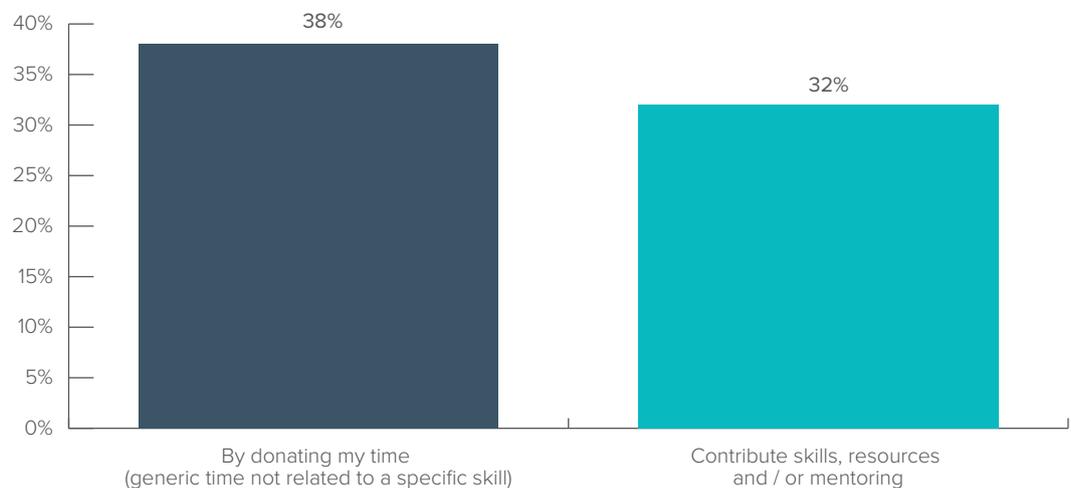
**Cheryl-lya Broadfoot, Soul’s Compass, London**

**Time, skills and resources**

Figure 3 shows that, of the 80 per cent of FSB small businesses that contribute to their communities, the most common ways are by donating their time (38%) and contributing skills, resources and mentoring (32%).

**Figure 3: Most common ways that small businesses contribute to their local communities**

**Source: FSB survey, 2018**



<sup>21</sup> Eden Project Communities, The cost of disconnected communities, available at <https://www.edenprojectcommunities.com/the-cost-of-disconnected-communities>.

Many communities, rely heavily on volunteers to provide services, some of which are critical and save lives.

### CASE STUDY

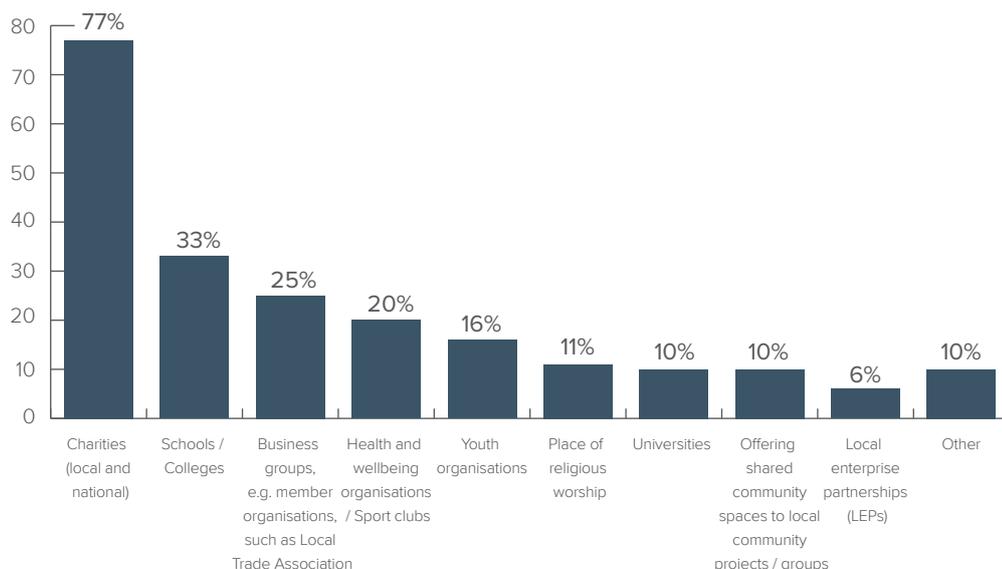
*“...after a customer sadly passed away following a cardiac arrest, I raised money to install a defibrillator outside our butcher’s shop and trained local people in CPR. Since then I’ve championed the initiative across Scotland and in Kinross itself, we have trained 508 people on how to use a defibrillator.”*

**Pamela Hunter, Hunters of Kinross Butchers, Scotland**

Figure 4 clearly demonstrates the extent of small business engagement with a range of local organisations and initiatives. Of those smaller businesses that contribute to their community, 20 per cent say they support health and wellbeing organisations. FSB’s qualitative research also identified community health and wellbeing as a priority for many small firms in their local areas.

**Figure 4: Proportion of FSB small businesses that volunteer for or contribute time to organisations and initiatives within their local community**

Source: FSB survey, 2018



More than a quarter (27%) of FSB small business owners hold a position within their local community in conjunction with running their business. These range from being a member of a local mountain rescue team, scout group leader, coastguard, and local school governor. It is well established that holding a position within a local community – such as the 11 per cent of small business owners that say they are a community volunteer – not only creates bonds between people who come from different backgrounds, but also contributes to improved integration within communities.<sup>22</sup>

FSB evidence provides a valuable insight into the extent to which small businesses facilitate community engagement and meaningful social interaction. Policy makers should not ignore the contributions that small businesses make to social value. They should also consider how wider policy decisions may impact upon small businesses’ time in particular.

FSB’s qualitative research suggests that small businesses are more agile and flexible than larger businesses in terms of their ability to ‘give back’. Charitable organisations or public sector groups, such as schools, are able to talk to the business owner or someone who is part of the decision making process, aided by a lack of bureaucracy. This means connections between small firms and local organisations are forged easily and swiftly.

22 HM Government, Integrated Communities Strategy Green Paper, available at [https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/696993/Integrated\\_Communities\\_Strategy.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/696993/Integrated_Communities_Strategy.pdf).

Over a third (38%) of small business owners have contributed to their local community by donating their time. Policy makers should not underestimate the value of time provided by a small business owner.

### CASE STUDY

*“...my time is the most valuable thing I have to offer.”*

**FSB member, publishing business, Yorkshire**

Small businesses have significant constraints on their time, as they act in many capacities within the business. Despite these challenges, small businesses remain committed to their communities. However, they often struggle to quantify their ability to give back because they provide their time to local organisations. It could be argued that a small business’s ability to provide their time is as valuable, if not more so, than monetary donations.

Specifically, the administrative burden attached to tax compliance (VAT compliance is especially cumbersome) diverts resources and time away from other activities including contributing social value.

As ever there is always latent demand. FSB research indicates that small businesses want to do more in this space, but sometimes are unsure of where to go. 30 per cent of FSB members are actively seeking to become involved or even more involved in local community initiatives. Further unlocking the potential of smaller firms to be a powerful force for good within their community – for example, through partnership working – could have a significant impact.

## Recommendations

### Government should:

- **Deepen its understanding of the social impact created by smaller businesses in their communities.** The extensive work of small businesses in their communities must be a central factor in the development of the small business policy framework, i.e. the formation of policies on issues such as tax, regulation, education, local government and infrastructure. Government must recognise the wider social impact of small businesses – beyond the economic – in tackling key societal issues such as ageing demographics, loneliness, wellbeing and social mobility. This will require a much more robust evidence base, perhaps using DCLG's annual Community Life Survey to shed light on the contribution that people perceive that smaller businesses in their community make to reducing social exclusion, improving health and wellbeing, increasing employability, creating better access to services, improving the local environment and creating greater community cohesion. More use could also be made of big data to provide a more granular evidence base in relation to the specific impact of smaller businesses in their communities.
- **Ensure there is a small business champion on the Responsible Business Leadership Group.** Small businesses are embedded in their communities, trusted by local people and are there for the long term. Government must work to better understand the role that small businesses play, to inform its place-based approach to the Industrial Strategy, the Inclusive Economy Partnership, the Civil Society Strategy, and Integrated Communities Strategy. The IEP can play an important role in unlocking this latent demand by encouraging partnerships between small business and charitable organisations, such as the Big Alliance. This is particularly important in towns and rural areas that experience economic and/or social exclusion. It is vital that small firms, social enterprises and charities continue to work together to increase responsible business across Britain.
- **Explore the potential for 'Community Zones' (following the model of Enterprise Zones).** For small businesses operating outside urban centres and business hubs, the costs of doing business are often greater due to poor infrastructure, cost of transport and lack of economies of scale. However, these small businesses provide significant social value and support their communities to be more resilient. Government must recognise the challenges these business face and, equally, celebrate the critical role they play. Policy makers must recognise the particular importance of SMEs within towns and rural conurbations. Policies to tackle inequality should specifically look to support small businesses in creating greater community resilience. Community Zones could follow the model of Enterprise Zones, which are designated areas across England that provide tax breaks and Government support. They are designed to help new and expanding firms by allowing them to access a number of benefits. These include up to 100% business rate discount worth up to £275,000 per business over a 5-year period and 100% enhanced capital allowances (tax relief) for those making large investments in plant and machinery. Enterprise Zones also benefit from simplified local authority planning. This includes through Local Development Orders that grant automatic planning permission for certain development (such as new industrial buildings or changing how existing buildings are used). Some high streets in fringe towns could benefit from being in a Community Zone.
- **Consider giving some support which is currently dedicated to Community Businesses (as defined by their legal structure, governance and geographical spread) to private sector smaller businesses achieving positive outcomes within their local communities.** For example, the Power to Change programme is a £150m fund which has distributed £36.5m in grants to community businesses (defined as those businesses which have been set up to be accountable to their community) between January 2015 and 2018.

## Social Value Act and using the lever of public procurement

### Policy context

Central Government, local authorities and large third sector organisations can use the lever of public procurement to deliver local priorities. They could do this by letting contracts not just on the basis of price, but also with regard to wider, long-term social value.

The Public Services (Social Value) Act came into force at the beginning of 2013. In the context of the Act, social value refers to the wider benefits of programmes, organisations and interventions including the wellbeing of individuals and communities, social capital and the environment. This is a narrower definition of social value than used in the rest of the report. It requires those who commission public services to consider how they can also secure wider social, economic and environmental benefits. The aim of the Act has been to encourage commissioners to engage with their local provider market and community to design better local services.

In June 2018, following the collapse of Carillion, the UK Government announced that it would introduce new measures to ensure central government bodies evaluate social value, rather than just consider it, when tendering new contracts.

The Social Value Act is an important component of the Civil Society Strategy, which states:

*“We are determined to ensure that public spending is used to generate social value, in addition to the goods and services the Act purchases. There needs to be an increase in social value commissioning across all levels of government. This means improving the use of the Public Services Social Value Act 2012.”<sup>23</sup>*

### Local Government implementation

Historically, while well intentioned, the day-to-day implementation of social value within procurement contracts has been met with some scepticism and addressed in an inconsistent manner by different local authorities. For example, some local authorities have narrowly defined the meaning of social value, treating it as merely a procedural tick-box exercise. This may be partly attributed to their failure to understand what social value is or how to deploy it under the Act. Some local authorities are still struggling with the paradigm shift from focusing on price to, instead, looking at value. Commissioners need training to understand social value and its benefits, both for local communities and the wider economy.

However, there are also examples of local authorities that do understand that social value makes both short and long term sense and can be both cost effective whilst also leading to better outcomes for the public. Bristol, Birmingham, Salford and Newcastle are examples of forward-looking local authorities in relation to social value. For example, Birmingham Council has *de facto* mandated that social value is a key measurable when awarding contracts. The council provides guidance on the themes they want to see addressed and how both they and the business might measure outcomes to gauge the impact of social value-led procurement.

### Supporting smaller businesses

Contracting bodies must ensure that smaller businesses are not disadvantaged by either the requirement or consideration of social value. Early market engagement with local SMEs is essential when designing social value criteria.

Many smaller firms consider that they already offer social value. However, very few know how to audit themselves in order to measure their relative social value maturity.

<sup>23</sup> Civil Society Strategy: building a future that works for everyone (August 2018).

## CASE STUDY

*“As a small contractor we find it very difficult to be involved in formal procurement for social value. We are excluded quite a bit because we are a small business, but in order to work for contractors (social value) is something they look for. It is quite demoralising trying to engage with larger contractors because they think you can’t perform and they automatically rule you out because they believe you can’t meet their social value criteria. However, we probably do a lot more in our community. We have organised various communities activities, these type of things larger contractors don’t do because there aren’t engaged at a local level.”*

**FSB member, Decorating business, London**

## Recommendations

### Government should:

- **Carry out a feasibility study for an online tool to promote social value, working closely with stakeholders.** The online tool could be used to educate commissioners and smaller firms about what can constitute social value (without being overly prescriptive) and help to create a level playing field across public procurement. It should also include a self-audit tool to support smaller businesses to understand their social value maturity. Finally, the design of the online tool must deliver on the below three priorities to be truly small business friendly:
  - Commissioning bodies do not take an overly prescriptive approach when defining social value in contracts and frameworks.
  - The long-term impact must be measured, not just the initial inputs when the contract is awarded.
  - The process is as simple as possible and easy to understand.

# PART 2: SUPPORTING LABOUR MARKET DISADVANTAGED GROUPS

Previous research by IPPR found that:<sup>24</sup>

*“...a greater share of workers in SMEs and self-employment come from groups that face labour market disadvantage, such as the disabled, younger and older workers and those with low levels of educational attainment.*

*This has been linked to the greater informality of recruitment in SMEs – in contrast to the more uniform recruitment processes in place at larger firms, SMEs are more likely to employ someone who has less experience of work and fewer formalised skills.”*

Of the 1,876 small businesses that took part in FSB’s latest research, 68 per cent say they employ staff and 32 per cent are sole traders. Of those that do employ staff (FSB small business employers) 95 per cent say they have recruited at least one person from a labour market disadvantaged group, in the last three years (Figure 5). Recruitment from these groups includes: individuals whose highest educational attainment is GCSE equivalent Maths/English Grade C or lower (34%); individuals returning to work after a career break (23%); and people who have English as a second language (24%).

Not all sub-groups within these groups, e.g. certain ethnic minorities, will be at a disadvantage in the labour market. Equally, other sub-groups may experience multiple disadvantages, e.g. an ex-offender with a disability.

**Figure 5:** Proportion FSB small business employers that have recruited from labour market disadvantaged groups within the last three years

**Source:** FSB survey, 2018

	Percentage
Low levels of educational attainment	34%
English as a second language	24%
Individuals returning to work after a career break	23%
Have a mental health condition	19%
Black, Asian and Minority Ethnic (BAME)	19%
Have a disability according to the definition in the Equality Act 2010	11%
Long term unemployed	11%
An unpaid carer	4%
Ex-offenders	3%
Young people (16-24)	58%
Older workers (aged 50 or above)	78%
All labour market disadvantaged groups	95%

<sup>24</sup> IPPR, Small firms, giant leaps: Small businesses and the road to full employment, available at [https://www.ippr.org/files/publications/pdf/Small-firms-giant-leaps\\_Apr2014.pdf](https://www.ippr.org/files/publications/pdf/Small-firms-giant-leaps_Apr2014.pdf).

FSB's new data shines a light on the relationship between responsible business and recruitment with regard to small firms – particularly in terms of those recruited from labour market disadvantaged groups. In addition to our empirical data, we also conducted interviews with charitable organisations working with small businesses, which reinforce the fact that there is a growing relationship between responsible business and recruitment.

## CASE STUDY

*“Businesses want to keep and engage staff, so community engagement can benefit their ability to recruit from within the community’. Employees want to know they are going to work for a responsible business, it’s part of the business model.”*

**Raymond Kinsella, BIG Alliance, London**

## CASE STUDY

*“MiCycle, a local independent bike shop in London, supports its local youth club, Mary’s Youth Club. The youth club which works with young people aged 10 – 19 and supports disadvantaged young people facing the challenges associated with poverty, mental health, isolation and violent crime.*

*“MiCycle held evening workshops at the youth club, teaching the young people to repair and maintain bicycles as well as learning how to cycle safely on the road. This interaction led to the employment of a 17 year old from the local area, who had recently spent a year out of work and education. The young person gained an AQA qualification and the employer noted the young person built a great rapport with customers.”*

**Mary’s Youth Club, Islington, London**

## Recommendations

### UK Government should:

- **Continue to back the New Enterprise Allowance (NEA), which provides financial support during the early months of self-employment, including access to a start-up loan, and an expert business mentor to help guide an individual through the first stages of setting up a business.** The New Enterprise Allowance helps to create businesses every year and is an important asset to potential entrepreneurs wanting to launch a firm. FSB lobbied strongly for Government to maintain the NEA in the 2018 Budget and were pleased the Government listened. We want to see a long term commitment to the NEA.
- **Introduce a one-year Employer National Insurance Contributions holiday for smaller businesses employing labour market disadvantaged groups.** UK unemployment is at record lows, but we are far from real full employment. The NI holiday would fulfil the Conservative Party manifesto promise to incentivise small businesses to recruit from groups that have found it difficult to get employment in the past, such as: former care leavers, someone with a disability, a mental health condition, ex-offenders, and the long term unemployed.

## Young people

Young people have always formed an important part of the small business workforce. For the purposes of this report, we have defined young people as those aged 16-24 years. Employers recognise the cost-effectiveness and importance of investing in their future workforce. The ability of employers to train young people in the specifics of their business provides young people with the opportunity to improve their employability and transferable skills. Official labour market statistics show that 55 per cent of all 16-24 year olds are in employment.<sup>25</sup> However, 10.9 per cent of 16-24 year olds are not in education, employment or training (NEET).<sup>26</sup>

FSB's latest research shows that 58 per cent of small business owners employ at least one person aged 16-24 (Figure 6).

**Figure 6:** Percentage of small business employers that currently employs at least one young person (broken down by National Minimum Wage groups)

**Source:** FSB survey, 2018

Young person age breakdown	At least one young person	At least one young person (16-24)
16-17	14%	58%
18-20	33%	
21-24	46%	

The Social Mobility Index demonstrates substantial differences in the life chances of young individuals from different parts of England and highlights the importance of education in the employability of the younger population. It also emphasises the significance of strong local job markets.<sup>27</sup>

Employing and training young people brings long-term and short-term benefits to small businesses and helps to address skills shortages and skills gaps. FSB research has consistently shown that small businesses are facing real skills shortages.<sup>28</sup> Record high employment rates, exacerbated by the impact of Brexit uncertainty on the supply of EU labour, means that skills shortages are now the second biggest barrier to the future growth aspirations of smaller businesses (with a rise in the share of firms stating this between Q3 and Q4 2018).<sup>29</sup> This is consistent with official data that shows unemployment at near record lows and slowing international migration reducing the pool of available skilled workers.

25 Office for National Statistics, A06 SA: Educational status and labour market status for people aged from 16 to 24 (seasonally adjusted), available at <https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/employmentandemployeetypes/datasets/educationalstatusandlabourmarketstatusforpeopleagedfrom16to24seasonallyadjusteda06sa>.

26 Office for National Statistics, Young people not in education, employment or training (NEET), UK: November 2018, available at <https://www.ons.gov.uk/employmentandlabourmarket/peoplenotinwork/unemployment/bulletins/youngpeoplenotineducationemploymentortrainingneet/november2018>.

27 Social Mobility & Child Poverty Commission, The Social Mobility Index, available at [https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/496103/Social\\_Mobility\\_Index.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/496103/Social_Mobility_Index.pdf).

28 FSB report, Learning the Ropes: Skills and training in small businesses, available at <https://www.fsb.org.uk/docs/default-source/fsb-org-uk/skills-and-training-report.pdf?sfvrsn=0>.

29 FSB Voice of Small Business Index, Quarter Four 2018 (December 2018), available at <https://www.fsb.org.uk/docs/default-source/fsb-org-uk/fsb-sbi-q4-2018-final.pdf?sfvrsn=0>.

## Engaging with education

Education is critical for supporting social mobility and ensuring every child and young person has an opportunity to fulfil their potential. For better prospects in adulthood, education should focus on providing essential life skills, such as confidence, resilience and communication, alongside academic performance. The trend towards automation in job markets increases the value of such skills in the workplace.<sup>30</sup> Young people should be given opportunities to directly engage with the world of work and experience these skills. FSB evidence suggests small firms engage with education by offering work experience and by speaking at school career events and fairs. However, small firms do face challenges, particularly around liaising with educators when trying to participate in enterprise education.

There is plenty of evidence to highlight the benefits of giving young people access to employers.<sup>31</sup> The Government's Careers Strategy instructed schools and colleges to offer every young person 'at least seven encounters with employers during their education'.<sup>32</sup> Good, impartial career guidance is essential for young people to make informed decisions about their future and to reach their full potential.<sup>33</sup> The Careers and Enterprise Company was set up by Government to inspire and prepare young people for the world of work. It aims to provide effective work experiences for young people and scale up support for the Gatsby Benchmarks.

Twenty Careers Hubs were established in September 2018, serving 700 schools and colleges. Through these hubs, between 20 and 40 secondary schools and colleges located in the same geographical area work together with partners in the business, public, education and voluntary sectors to deliver the Gatsby benchmarks to improve careers outcomes for younger people. The intention is to increase the number of career hubs from 20 to 40.

It was recently reported that 50 per cent of schools and colleges are now achieving the benchmark on encounters with employers and employees.<sup>34</sup> Ofsted has also noted that 'careers guidance in schools is improving'.<sup>35</sup> However, more needs to be done to engage small businesses in this work. Currently there are 2,000 Enterprise Advisors (EAs), 20 per cent of whom are from smaller businesses and likely to be either the business owner themselves or holding a senior position within the smaller business. The EAs operate through Career Hubs.

To meet the Government's target, employers need to offer young people at least four million employer encounters and one million workplace experiences annually.<sup>36</sup> Smaller firms constitute 99.3 per cent of all private sector businesses and 48 per cent of employment across the UK.<sup>37</sup> It is, therefore, vital that small businesses engage with educational institutions and provide young people with opportunities to experience the world of work first hand.

## Schools and colleges

FSB research shows that a third (33%) of small businesses engage with schools and colleges. Small business engagement with local schools and colleges is paramount to ensuring young people have access to future opportunities. There is a clear willingness among FSB members to engage with schools and provide work experience to people in their local communities. 41 per cent of small business employers say they have offered work experience either as part of the recruitment process or through their community outreach, over the course of the last year.

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30 Life Lessons, Improving Essential Life Skills for young people (October 2017), available at [https://www.suttontrust.com/wp-content/uploads/2017/10/Life-Lessons-Report\\_FINAL.pdf](https://www.suttontrust.com/wp-content/uploads/2017/10/Life-Lessons-Report_FINAL.pdf).

31 The Careers and Enterprise Company, Closing the gap: The level of employer engagement in England's schools and colleges, available at [https://www.careersandenterprise.co.uk/sites/default/files/uploaded/closing\\_the\\_gap\\_final\\_single\\_pages\\_0.pdf](https://www.careersandenterprise.co.uk/sites/default/files/uploaded/closing_the_gap_final_single_pages_0.pdf).

32 Department for Education, Careers strategy: making the most of everyone's skills and talents (December 2017) [https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/664319/Careers\\_strategy.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/664319/Careers_strategy.pdf).

33 Gatsby, Good Career Guidance, available at <http://www.gatsby.org.uk/education/focus-areas/good-career-guidance>. <http://www.gatsby.org.uk/education/focus-areas/good-career-guidance>

34 The Careers and Enterprise Company, Careers and Enterprise Provision in England's schools and colleges: State of the Nation 2018, available at [https://www.careersandenterprise.co.uk/sites/default/files/uploaded/1150\\_state\\_of\\_the\\_nation\\_2018\\_exec\\_summary\\_digital\\_1118.pdf](https://www.careersandenterprise.co.uk/sites/default/files/uploaded/1150_state_of_the_nation_2018_exec_summary_digital_1118.pdf).

35 Ofsted, Ofsted blog: schools, early years, further education and skills, available at <https://educationinspection.blog.gov.uk/2018/06/12/building-confidence-encouraging-aspiration/>.

36 The Careers and Enterprise Company, Closing the gap: The level of employer engagement in England's schools and colleges, available at [https://www.careersandenterprise.co.uk/sites/default/files/uploaded/closing\\_the\\_gap\\_final\\_single\\_pages\\_0.pdf](https://www.careersandenterprise.co.uk/sites/default/files/uploaded/closing_the_gap_final_single_pages_0.pdf).

37 Department for Business, Energy and Industrial Strategy, Business Population Estimates for the UK and Regions 2018, available at [https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/746599/OFFICIAL\\_SENSITIVE\\_-\\_BPE\\_2018\\_-\\_statistical\\_release\\_FINAL\\_FINAL.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/746599/OFFICIAL_SENSITIVE_-_BPE_2018_-_statistical_release_FINAL_FINAL.pdf).

For those employing younger workers this figure rises to 52% (Figure 7).

**Figure 7:** Percentage of small business employers that recruit via work experience or offer work experience

**Source:** FSB survey, 2018

Small Employers of Young People (16-24)	All small employers
52%	41%

Due to the wide geographical spread of small businesses, they are particularly successful at providing work experience in the most disadvantaged communities and areas with a smaller proportion of larger businesses. These interventions can provide meaningful work experiences for young people and so improve their life chances and adulthood outcomes. Incentivising schools to engage with local employers is key to improving employability skills among young people.

#### CASE STUDY

*“I graduated in the midst of the recession, so I was finding it difficult to get a job and to find work experience. Eventually, I gained work experience in town planning. Eight years on I don’t want anyone to be in that position. I am more than happy to accommodate graduates, so I ensure our offices have someone in for work experience every three months. In the last year we have taken on two people with no experience.*

*“We also work with a local school, assisting in design and construction classes. We take students from the school during years 10 and 11 for two weeks work experience, so they get a feel of what they may expect if they chose to undertake a career in architecture. We also attend open days at the University of Central Lancashire, in which we have taken on a number of students from their construction courses.*

*“I recognise the importance of my business in diverse areas like Burnley and Blackburn and the benefits of providing work experience through schools, colleges and universities.”*

**Saira Hussain, Hussain Architectural Design Limited, Burnley, Blackburn and Manchester**

#### CASE STUDY

*“We are aware that venturing into the world of work for the first time, and the prospect of leaving school/college/university, can be daunting. We aim to offer work placements, so that young people understand what it is like to work in an office environment and an environment that is outside of their educational setting. We are also aware of how difficult it can be for schools and colleges to find placements.*

*“The young people that come to us benefit by understanding the routines surrounding a working day and the importance of working with others and taking responsibility of their time. We endeavour to ensure that the young person leaves the placement with a greater knowledge of business than when they first walked through our door.”*

**Stafflex Limited, Recruitment agency, Huddersfield**

## Recommendations

### UK Government should:

- **Reintroduce the principle of compulsory work experience, allowing for flexible models that work for smaller businesses.** The end of compulsory work experience in England in 2012 for students at Key Stage 4 was arguably detrimental to the employability of young people and the education to employment transition. The Gatsby framework was implemented by the Careers and Enterprise Company to allow for more flexibility of work experience and a move away from block work placements. However, the move has failed to provide the necessary consistency in the quality of work experience for all students. Policy makers must act if they are to adequately support 14-16 year olds in gaining real world employment experience. This does not mean simply reviving the traditional one or two week block of work experience. Instead, it could involve the adoption of far more flexible models of ‘compulsory work experience’ that can be made to work for smaller businesses. Head Teachers and Career Leads must have the freedom to engage with smaller businesses in their community (perhaps via Career and Enterprise Company Enterprise Advisors) to develop appropriate work experience and, more generally, employer touch point models that are tailored to the needs of the local community. If the principle of compulsory work experience cannot be introduced, at the very least statutory guidance to schools and colleges should be revised to include a “right to be offered” a substantive work experience placement at Key Stage 4.
- **Support smaller businesses to take on apprentices.** Government must make the 20 per cent off-the-job training work for smaller businesses, including those in rural areas and fringe towns. Smaller businesses play a critical role in employing younger workers. FSB’s latest research has shown that about 91 per cent of all apprenticeships offered by FSB members are held by 16-24 year olds. However, recent apprenticeship reforms have led to a reduction in the number of apprenticeship starts. The co-investment requirement for employers to contribute 10 per cent towards training and assessment costs – combined with the requirements for apprentices to spend at least 20 per cent of their time on off-the-job training – has affected the ability of many small businesses to offer apprenticeships. FSB welcomed two recent announcements in the 2018 Budget: the reduction in the co-investment requirement from 10 per cent to 5 per cent, and the increase in the proportion of unspent levy funding that can be shared throughout the supply chain or local community. However, more needs to be done, including finding ways to better support the operation of off-the-job training and training and assessment provision, particularly in rural areas and fringe towns.
- **Incentivise smaller businesses to deliver work placements by matching the industry placement fund for providers of T-levels with a fund for smaller employers.** Work Placements are an integral part of T-levels but the 45-day work placements are a significant burden for small employers. The UK Government must provide clear financial incentives and guidance to enable small businesses – especially those in rural, coastal and remote communities – to provide these placements. It should match the industry placement fund for providers of T-levels to ensure that small employers are able to deliver high quality industry placements. T-levels are two-year courses that will commence in September 2020 and offer young people a mixture of classroom learning and ‘on-the-job’ experience.<sup>38</sup> Previous FSB research indicated that 50 per cent of smaller businesses think that technical skills are the most important skill for the future growth of their business. The success of T-levels is reliant on small firms, particularly in rural areas. However, our research has shown that only six per cent of small business employers are prepared to provide work placements that are an integral part of T-levels.
- **Supporting employer engagement.** The Department for Education (DfE) should extend eligibility for travel bursary funding to young people under the age of 16 to help them access a wider range of local employers. DfE should publicise the fund and ensure that information about eligibility and the application process is communicated clearly to young people and those supporting them. It should commit to communicating this via schools, colleges and the

<sup>38</sup> Department for Education, Introduction of T Levels (January 2019), available at <https://www.gov.uk/government/publications/introduction-of-t-levels/introduction-of-t-levels>.

redesigned National Careers Service website. The Careers and Enterprise Company, which has recently joined with the SkillsBuilder Partnership, should closely work with organisations such as FSB to achieve the ambition of increasing the number of Enterprise Advisors from 2,000 to 4,000. A variety of communication channels must be utilised to reach smaller businesses including through the use of existing civil and community organisations. Initiatives like Enabling Enterprise's SkillsBuilder Partnership (which seeks to equip young people with the skills, experiences and aspirations required for the world of work by working with schools and employers) are also instrumental in helping young people achieve better outcomes in the future. However, there is a long way to go. Bridging the gap between education and the world of work requires close working between education institutions and smaller businesses within a community. The merger between SkillsBuilder Partnership and The Careers and Enterprise Company will allow for a shared language and outcomes.

## Higher Education institutions

Ten per cent of FSB small businesses say they engage with universities. Engagement with universities is important for small businesses, especially for those working in the field of innovation.

### CASE STUDY

*"We have a lot of innovative practices within the business so that we nurture a creative and innovative environment. The flat structure of the organisation allows employees to work directly with me and that has allowed me to attract top talent from universities."*

**Euan Cameron CEO, COHESION® Medical, Glasgow**

## Recommendations

### UK Government should:

- **Promote the Small Business Charter (SBC).** To support this ambition, more must be done to promote the Small Business Charter award, which gives recognition to business schools that play an effective role in supporting small businesses, local economies and student entrepreneurship. To obtain the charter a University/Business School needs to have developed a strategy for engaging smaller businesses across the work of the whole institution. The Charter recognises engagement through courses, outreach into the local community, student entrepreneurship, careers, staff and faculty engagement, amongst other attributes and behaviour.
- **Build bite-size learning into the design of management and leadership training.** There is a need for many universities to move engagement from an ad-hoc to a more systematic basis, developing a strategy or programme of engagement which can then be more easily marketed to small businesses. Learning would benefit from being 'bite-sized' so small businesses can undertake this activity in a flexible way. The greater resources generally found within larger businesses mean that it is significantly easier for larger businesses to sign up to relatively long expensive courses and essentially take a punt or risk on the direct value this may or may not provide. Smaller businesses may benefit from more of an escalator approach, whereby their initial financial and time commitment is relatively low. Then, if they see benefits from the training, they are able to 'ramp up' and, for example, buy the second round or module of training. This should be taken into consideration by policy makers who are designing leadership and management training, following the announcement of an additional £11 million of funding by the Chancellor in the Autumn of 2018.<sup>39</sup> The language of this leadership and management training should also be carefully chosen to avoid technocratic conceits (such as productivity) and couched in the everyday language of business, including efficiency, growing revenues, reaching new markets and saving time on day-to-day processes.

## Older workers

The United Kingdom has an ageing population and workforce. Therefore, it is of growing economic and social importance for policy makers to better understand the labour market status of individuals approaching and above State Pension age (SPA). In October 2018, the Department for Work and Pensions (DWP) published data on the economic labour market status of individuals aged 50 and over. As shown in Figure 8, the rate of employment has increased for older workers (those aged 50 and over), with the rate for those aged over 65 more than doubling in the last twenty five years.

**Figure 8: Employment rates - Economic labour market status of individuals aged 50 and over, trends over time: October 2018**

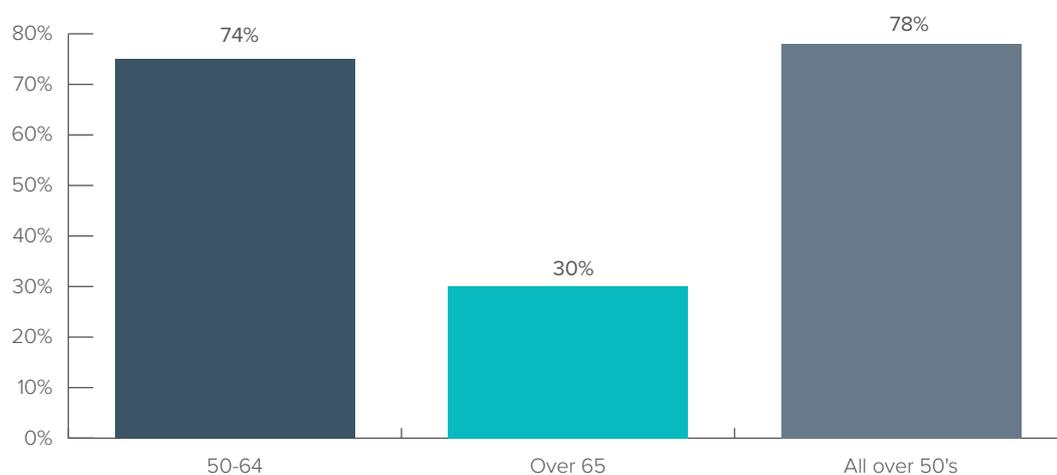
**Source:** UK Government, Department for Work and Pensions

All	1993	1997	2001	2005	2009	2013	2018
50-54	72.8	74.8	77.4	79.4	79.2	80.3	82.9
55-59	58.8	59.8	64.5	68.6	70.7	72.4	74.7
60-64	34.1	36.9	37.6	41.7	44.9	46.1	54.3
65-69	9.6	10.5	11.0	14.4	17.7	20.4	21.7
70-74	4.5	4.5	4.4	5.4	6.7	8.4	10.3
75+	1.6	1.5	1.2	1.6	1.6	2.4	3.2

Figure 9 shows the importance of smaller firms in older worker employment. 78 per cent of FSB small business employers say they currently employ at least one worker over the age of 50.

**Figure 9: Proportion of FSB small employers that currently employ at least one older worker**

**Source:** FSB survey, 2018



## Recruitment of older workers

Smaller firms play an important role in creating jobs for older workers who would have difficulty finding work elsewhere.<sup>40</sup> A key reason for this is that smaller firms are often better able to change working practises to accommodate older workers.

According to the recent Women and Equalities Committee report on older people:<sup>41</sup>

*“...the most significant barrier to older people working... was age bias and discrimination, most significantly in recruitment.”*

Further, recent Age-Friendly employer research by Mercer found that:<sup>42</sup>

*“...87 per cent of employers have not checked whether their people managers are hiring workers older than themselves.”*

Small businesses tend not to have Human Resources (HR) support to assist them in the recruitment process. FSB research shows that 33 per cent of small business workers recruit via online job websites, 22 per cent via recruitment agencies and 13 per cent via JobCentre Plus. It is often the small business owner themselves that will make the decision to offer employment to a job applicant.

### CASE STUDY

*“About a year ago, I was in need of a career change... I was looking for a role that would utilise my years of experience as a nurse and midwife, but did not wish to return to the stress or unsociable hours of my previous role. My first impressions were soon confirmed during the interview process, which focused very much on my ‘people skills’ and ability to relate to a range of clients with different needs.”*

**Older worker and employee of FSB member, Hertfordshire**

The Centre for Ageing Better also found that micro and smaller employers are less likely to have formal equal opportunities and diversity policies in relation to recruitment in comparison to larger organisations. However, the use of such policies by businesses does not necessarily lead to higher proportions of older workers in employment. A recent report by the National Institute of Economic and Social Research (NIESR) highlights the limitations of diversity policies. The study observed that, in the public sector, equal opportunities or age-specific recruitment practices were not associated with higher proportions of older workers. And in the private sector, the presence of an equal opportunities policy that explicitly mentioned age was associated with a lower proportion of older workers.<sup>43</sup>

## Flexible working and older workers

FSB research shows that, of those small business employers that offer flexible working to all staff, the majority (69%) recognise the benefits of doing so, such as supporting the recruitment and retention of staff, as well as increasing productivity and staff morale.

There is no formal definition of flexible working. FSB research suggests small businesses are more likely to take a personalised approach to negotiating a mutually beneficial arrangement between worker and employer. This is largely achieved through, for example, flexible working arrangements being arranged once an individual has been recruited, facilitated by direct, regular contact with the business owner and the absence of a strict corporate policy in this area.

The most common forms of flexible working offered by FSB small employers are flexitime or staggered hours (63%) and the ability to reduce working hours (61%). Smaller businesses have the ability to make simple adjustments fairly easily, which can greatly benefit the work-life balance of their employees.

<sup>40</sup> Centre for Ageing Better, *Becoming an age-friendly employer: Evidence report* (September 2018), available at <https://www.ageing-better.org.uk/sites/default/files/2018-09/Being-age-friendly-employer-evidence-report.pdf>.

<sup>41</sup> Women and Equalities Committee, *Older people and employment inquiry* (October 2018), available at <https://publications.parliament.uk/pa/cm201719/cmselect/cmwomeq/359/35902.htm>.

<sup>42</sup> Mercer, *Age-Friendly employer research*, available at <https://www.uk.mercer.com/our-thinking/ageing-workforce/age-friendly-employer-research.html>.

<sup>43</sup> NIESR (2017), *‘Older workers and the workplace. Evidence from the Workplace Employment Relations Survey’*. DWP Research Report No 939.

This approach can greatly benefit older workers, especially those with health conditions and caring commitments.

### CASE STUDY

*“I offer flexible working arrangements to all my staff. This is all based around trust. One of my employees is 78 and works two days a week. He chooses which days he works.*

*“Another employee is 73 and cares for his wife, so he uses flexible working, working part-time and using flexitime to accommodate his caring responsibilities. We gain because we really value his work and he gains because he can earn a wage and still look after his wife.”*

**Geraint Lewis, Call of the Wild, South Wales**

The importance of flexible working to older workers – and the need to do more – is emphasised in the findings of a recent survey published by BEIS.<sup>44</sup> According to the survey findings, around four in five over 50s (78%) believe more flexible working hours should be introduced to accommodate older workers.

Previous research by FSB suggests that the challenges associated with skills shortage vacancies could be addressed by greater job flexibility and opportunities to job-share, increased mechanisation of certain tasks, supporting older people and the unemployed back into the labour market and greater support to be more effective when hiring new employees.<sup>45</sup>

### CASE STUDY

*“Older workers have the experience; we are quite specific in what we do, so we need people with experience of being on-site in construction. The business recently hired another older worker, 60 years of age, because of his wide experience. Although flexible working can pose its difficulties in this sector, the business enables staff to work on flexitime hours and/or work from home where possible. Training and development is vital within the business and we ensure it is available for all ages and for the 38 per cent of staff who are older workers.”*

**FSB member, Construction business, Shropshire**

### Sector focus: Construction

*The construction sector is facing a growing skills shortage. The former UK Commission on Employment and Skills (UKCES) survey found that construction has the joint highest proportion of skills shortage vacancies of any industry. The number of skills shortage vacancies in the construction sector rose from 5,000 in 2013 to 12,000 in 2015. Two in five workers in the construction sector (a million in total) are set to retire in the next 20 years.*

*The extension of working lives means workers in the industry are more likely to develop chronic health conditions, such as musculoskeletal problems. However, older workers are a valuable resource to the construction sector, especially as Brexit has the potential to make skills shortages in this sector even more acute.*

*Creating the conditions for an age-diverse workplace can be challenging, especially for small employers without human resources support. However, many small businesses have created effective working environments for older workers.*

<sup>44</sup> Department for Business, Energy & Industrial Strategy, Views on the ageing society: survey of older people, available at <https://www.gov.uk/government/publications/views-on-the-ageing-society-survey-of-older-people>.

<sup>45</sup> FSB report, Learning the Ropes: Skills and training in small businesses, available at <https://www.fsb.org.uk/docs/default-source/fsb-org-uk/skills-and-training-report.pdf?sfvrsn=0>.

Flexibility can be particularly beneficial to older workers who wish to phase in their retirement. Policy makers often discuss the need for older workers to retrain. While this remains a key concern, older workers already possess an abundance of skills which are highly beneficial to small businesses, particularly those experiencing skills shortages. For older workers who wish to phase in their retirement, flexible working is invaluable for maintaining their work life balance. Chapter 5 of this report explores in more detail the benefits of flexible working within smaller businesses more generally.

## Training and retraining for older workers

Older workers are less likely to receive training than younger workers. It is unclear how far this is a matter of employer resistance, or individual unwillingness to train.<sup>46</sup> Initiatives for promoting learning need to be tailored to an older audience. It is clear that government policy on older worker skills and development needs to be more joined up.

The UK Government is working with the National Careers Service, Local Enterprise Partnerships (LEPs) and employers on careers advice. It has committed £40 million to pilot career learning initiatives designed to test how it can effectively engage adults about the opportunities and benefits of learning.<sup>47</sup> Two pilots are currently being funded: £30 million for digital skills and £34 million for the construction industry.<sup>48</sup> In addition, after successful lobbying by FSB, the Government has announced a £10 million pilot in Greater Manchester, which seeks to support the self-employed in acquiring new skills, rather than just updating existing ones.

Any interventions aimed at delivering lifelong learning to adults should prioritise the least skilled individuals on the lowest incomes – those who would benefit the most from training opportunities, but who are least likely to participate in learning.<sup>49</sup>

## Health in later life

According to the Office of National Statistics (ONS), 44 per cent of UK adults aged 50-64 have a health problem lasting or expected to last more than a year.<sup>50</sup> Many of these adults work for smaller businesses, with FSB's own research showing that 30 per cent of FSB small business employers currently have at least one member of staff aged 65 or over.

ONS data shows that the sickness absence rate for over 65s is 2.9 per cent, compared to 1.5 per cent for ages 16-24 and 25-34.<sup>51</sup> Research conducted by CEBR and Wealth Wizards found that:<sup>52</sup>

*“...in real terms, workers over the age of 64 are off 3.33 more days per year due to illness than those under 35. Collectively this means employees delaying their retirement by just one year could add another 1.7 million days' absence to businesses per year.”*

Over the last decade alone more than 50 per cent of people aged 65 years and over have had at least two chronic conditions ('multi-morbidity'). According to research by the Economic and Social Research Council (ESRC):<sup>53</sup>

46 McNair 2006: 493

47 Department for education, Careers strategy: making the most of everyone's skills and talents (December 2017), available at [https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/664319/Careers\\_strategy.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/664319/Careers_strategy.pdf).

48 Department for education, Careers strategy: making the most of everyone's skills and talents (December 2017), available at [https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/664319/Careers\\_strategy.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/664319/Careers_strategy.pdf)

49 FSB report, Learning the Ropes: Skills and training in small businesses, available at <https://www.fsb.org.uk/docs/default-source/fsb-org-uk/skills-and-training-report.pdf?sfvrsn=0>.

50 Office for National Statistics, Living longer: Fitting it all in – working, caring and health in later life, available at <https://www.ons.gov.uk/peoplepopulationandcommunity/birthsdeathsandmarriages/ageing/articles/livinglongerhowourpopulationischangingandwhyitmatters/fittingitalinworkingcaringandhealthinlaterlife#fitting-it-all-in>.

51 Office for National Statistics, Sickness absence in the UK labour market: 2016, Sickness absence rates of workers in the UK labour market, including number of days lost and reasons for absence, available at <https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/labourproductivity/articles/sicknessabsenceinthelabourmarket/2016>

52 Wealth Wizards, research report: The rise of the non-retiring, available at <https://www.wealthwizards.com/riseofthenonretiring/>

53 Economic and Social Research Council, Multiple chronic conditions: an emerging healthcare challenge (November 2018), available at <https://esrc.ukri.org/news-events-and-publications/evidence-briefings/multiple-chronic-conditions-an-emerging-healthcare-challenge/>.

*“...over the next 20 years the number of people with two or more chronic conditions will almost double to nearly 10 million. Specifically, between 2015 and 2035, the number of older people with more than two illnesses (“multi-morbidity”) will almost double, from 5.2 million in 2015 to 9.8 million in 2035. The number of older people in the population with more than four diseases (“complex multi-morbidity”) will increase from 9.8 per cent (952,400) in 2015 to 17.0 per cent (2,453,200) in 2035.”*

More people will work into older age in future. As older people are more likely to experience illness or disability, the prevalence of illness and disability in the working-age population will increase. 15 per cent of people aged 16-24 have at least one health condition that limits their day-to-day activities in some way. This increases to 42 per cent of people aged 45-64, and 57 per cent of people aged 65-74.<sup>54</sup>

According to the ONS, musculoskeletal problems, such as back and joint pain, is a reason for sickness absence for 20.8 per cent of those aged 50-64.<sup>55</sup>

FSB research shows that small businesses contain a high proportion of older workers, and many will find they need to adapt their workplace to support their staff.

## CASE STUDY

*“A lot of our staff join because they can no longer work in construction because of health problems, e.g. a number of our staff (including me the business owner) have musculoskeletal problems. Consequently, a number of our staff have re-trained as consultants because they can no longer physically work on site.”*

**FSB member, Construction business, Shropshire**

Chapter six focuses on specific proposals to improve the provision of occupational health services within smaller businesses, as well as improving access for the self-employed.

## Self-employment for older workers

As described above, small businesses contain a high proportion of older workers, but there has also been an increase in the number of older workers entering self-employment. According to ONS figures, the most prevalent age group within self-employment are those aged 45-54, representing 4.1 per cent of total employment in 2016.<sup>56</sup> Increasing numbers of older workers are leaving employment to enter self-employment.

Research from CEBR and Hitachi Capital found that:<sup>57</sup>

*“...nowadays, older workers more often end their careers in self-employment instead of retiring. This sometimes involves a change in occupation, but quite often people decide to continue within their industry, but prefer to work more autonomously. This suggests that a greater number of older workers are entering self-employment because of the flexibility this provides. If the over 50s demographic maintains their lead in the growth rate over the under 50s, they will represent more than 50 per cent of all self-employed people in the UK from 2024 onwards.”*

54 Public Health England and The Work Foundation, Health and Work: Spotlight on Mental health, available at [https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/618541/Health\\_and\\_work\\_infographics.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/618541/Health_and_work_infographics.pdf).

55 Office for National Statistics, Sickness absence falls to the lowest rate on record: The latest figures for 2017 show that the average number of sickness absence days that UK workers take has almost halved since 1993, available at <https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/employmentandemployeetypes/articles/sicknessabsencefallstothelowestratein24years/2018-07-30>

56 Office for National Statistics, Trends in self-employment in the UK, available at <https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/employmentandemployeetypes/articles/trendsinselfemploymentintheuk/2018-02-07>.

57 Hitachi Capital UK and CEBR, Over 50s To Be Majority Of UK's Self-Employed By 2024, available at <https://www.hitachicapital.co.uk/news-media/over-50s-to-be-majority-of-uks-self-employed-by-2024/>.

Previous FSB research into member demographics found that the average (mean) age of self-employed FSB members was 56.69 years. On average, women respondents (54.59 years old) were slightly younger than men (57.74 years old).<sup>58</sup>

### Mid-life MOT

The Department for Work and Pensions (DWP) is committed to delivering a mid-life MOT following the recommendation made in the Cridland Review. The aim is to provide an effective tool for health, financial and career planning. Sole traders and small business employers recognise the need to plan ahead towards retirement, for both themselves and their staff.

The mid-life MOT has the potential to benefit the self-employed. Previous FSB research found that the self-employed are a diverse group, not only with regards to the sectors and professions they span, but also in relation to: their income levels; the degree to which they are affected by financial exclusion; and the types of business, training or financial support they seek.<sup>59</sup> The financial element of the mid-life MOT will help the self-employed prepare for the long term and, specifically, retirement.

## Recommendations

### UK Government should:

- **Target the mid-life MOT on those most in need.** The mid-life MOT has the potential to benefit the self-employed in assessing their skills levels, evaluating their health and wellbeing and planning ahead for retirement. The mid-life MOT has the ability to link current and proposed policy interventions, for the self-employed, such as the £10 million training pilot in Greater Manchester for the self-employed and occupational health support for the self-employed. For the mid-life MOT to genuinely help the most in need, the Department of Work and Pensions (DWP) should initially focus on a targeted messaging campaign highlighting the benefits of the MOT to specific sub-groups of the self-employed for example those in precarious forms of self-employment. Government should commit funds to extend the pilot amongst small firms and the self-employed. There should be a continuation of investment to support the face-to-face or telephone advice support, as an investment in an online resource alone will not act as a sufficient intervention. This will benefit small businesses that do not have access to HR support. The support of groups like the Pensions Advisory Service will be invaluable. Policy makers should also bear in mind how the MOT will interact with other departmental policies. DWP, BEIS and DfE all have policies in place, or under development, which will impact skills and health. It is vital that these policies link and complement a future MOT.

<sup>58</sup> FSB report, Going it alone, Moving on Up: Supporting self-employment in the UK, available at <https://www.fsb.org.uk/docs/default-source/fsb-org-uk/fsb-supporting-self-employment-uk1f5f3abb4fa86562a286ff0000dc48fe.pdf?sfvrsn=0>.

<sup>59</sup> Ibid.

## Race and ethnicity in self-employment and SMEs

Much of the focus on the representation of ethnic minorities within the British workforce been on the public sector and large private sector organisations. There has been little public policy analysis of ethnic minority representation amongst the self-employed or specifically within small businesses.

### Self-employment and ethnicity

Self-employment has played a valuable role in opening up employment to those who otherwise might not be in work. Self-employment provides many with independence and the ability to utilise their creativity to fulfil a personal vision.

Businesses owned by ethnic minorities contribute £25-£32 billion to the UK economy a year.<sup>60</sup> In 2017, nearly eight per cent of the ethnic minority population were involved in starting or running a new business – compared to 14.5 per cent of the white population.<sup>61</sup> Policy makers should ensure that they look at the employment rates among specific individual ethnic minority groups to develop targeted proposals to support entrepreneurship.

Some minorities, especially those from a Black African and Caribbean heritage, are under-represented in self-employment.<sup>62</sup> Self-employment is an important form of employment for ethnic minority men, particularly the Pakistani group, with over 30 per cent of Pakistani men in employment being self-employed. Among women, self-employment rates are significantly lower than men across all ethnic groups.<sup>63</sup>

### Business support for ethnic minority businesses

Ethnic minority groups are often more marginalised and likely to receive less business support than white entrepreneurs. Recent research from FSB found that smaller firms in more deprived areas of the UK (using the Index of Multiple Deprivation) may feel left behind, compared to other areas of the country.

FSB's recent report, *Going for Growth*, focused on the need for the UK Government to provide bespoke solutions for groups and individuals within the small business community that particularly struggle to access external finance. Business owners from black and minority ethnic backgrounds find it harder than others to access credit and have a higher expectation of rejection.<sup>64</sup>

#### CASE STUDY

*“Owning my own business has always been something I have wanted to do. Moreover, having worked in a large company and experienced racial prejudice made me want to pursue self-employment even more. I want to give my staff exposure to a variety of opportunities. Diversity is hugely important to my business because it is important to me. Having a diverse team enables me to connect to a wider group of customers.”*

**Black female business owner, Accommodation & Food Services, London**

The UK Government should analyse the position of particular ethnic minority groups, notably Black African, Black Caribbean, Bangladeshi and Pakistani groups in relation to access to finance and growth finance.

60 Economic & Social Research Council, Supporting ethnic minority and female entrepreneurs, available at <https://esrc.ukri.org/files/news-events-and-publications/evidence-briefings/supporting-ethnic-minority-and-female-entrepreneurs/>.

61 Cabinet Office, Ethnicity facts and figures, Ethnicity in the UK, available at <https://www.ethnicity-facts-figures.service.gov.uk/ethnicity-in-the-uk> <https://www.ethnicity-facts-figures.service.gov.uk/ethnicity-in-the-uk>.

62 Department for Communities and Local Government, Ethnic Minority Businesses, and Access to Finance, available at [https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/225762/EMBs\\_and\\_Access\\_to\\_Finance.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/225762/EMBs_and_Access_to_Finance.pdf).

63 BEIS analysis of ONS Labour Force Survey, 2016 Quarter 1.

64 Enterprise Research Centre, diversity and SMEs, ERC White Paper No.3, available at [https://www.enterpriseresearch.ac.uk/wp-content/uploads/2013/12/ERC-White-Paper-No\\_3-Diversity-final.pdf](https://www.enterpriseresearch.ac.uk/wp-content/uploads/2013/12/ERC-White-Paper-No_3-Diversity-final.pdf).

Figure 10 shows that businesses in less favoured areas are more likely to be owned by ethnic minorities. Small businesses in less favoured areas also tend to be marginally larger than those in other parts of the UK and are concentrated in the manufacturing, wholesale and retail and transport services sectors. Some higher value added sectors – particularly professional services – are under-represented in less favoured areas. This probably reflects the concentration of less favoured areas in urban areas with a historical focus on manufacturing industries. Improving outreach and the image of business support in England is key to reaching into these communities and working with these businesses to grow. FSB research shows that owner-managers in deprived areas are also significantly more likely to aim to become a successful business leader in their community.<sup>65</sup>

**Figure 10: Scale and ownership characteristics: Less favoured areas and other parts of the UK**

Source: LSBS 2017<sup>66</sup>

Area	LFA	Others	All
<b>Number of observations</b>	<b>586</b>	<b>4,185</b>	<b>4,771</b>
Number of staff (average) <sup>***</sup>	10.0	8.2	8.4
Average turnover (£) (average)	1,270.7	1,102.0	1,118.8
Average age of business (years)	31.9	28.7	29.0
Female-owned (per cent)	20.7	20.7	20.7
Ethnic minority-owned (per cent) <sup>**</sup>	4.7	1.7	2.0
Family-owned (per cent) <sup>**</sup>	64.4	69.8	69.3

Greater access to finance and a range of financial investment strategies are needed to support ethnic minority business owners in deprived areas. Subject to the outcome of the Brexit process, through the UK Shared Prosperity Fund, the UK Government will have the opportunity to create and shape its own rules for distributing funds across the UK and the devolved nations (subject to state aid rules). England should consider the approach taken in Wales and Scotland to resolve the patchy and inconsistent picture of access to finance for small businesses in both deprived areas and other areas faced with challenges in relation to access to finance.<sup>67</sup>

## Supply chains

FSB's report on supply chains, *Chain Reaction: Improving the supply chain experience for smaller firms* highlighted the importance of healthy supply chains, which are critical for boosting the productivity, resilience, financial strength and efficiency of smaller and larger businesses alike, and economic growth across the UK.<sup>68</sup>

Policy makers should look beyond sector-specific supply chain challenges. For example, the self-employed sole trader experience of the supply chain is very different to that of a large or medium sized company, or even that of a small or micro business. This may come with distinct advantages, but also highlights the need for different solutions based on the exact nature of the challenges faced.

Ethnic minority owned businesses tend to remain as microbusinesses, so they may experience bigger challenges in accessing supply chains. A truly inclusive supply chain enables small businesses, including microbusinesses, to take advantage of a range of benefits available within the economy. This enables economic growth to be more evenly spread nationally.

65 FSB report, *Sharing Prosperity: The Future of UK Business support*, A joint report from the Enterprise Research Centre and FSB (November 2018), available at <https://www.fsb.org.uk/docs/default-source/fsb-org-uk/fsb-sharing-prosperity-report-final.pdf?sfvrsn=0>.

66 Data from the LSBS 2017. Observations are weighted to give representative results. \* indicates a significant difference at the 10 per cent level, \*\* at 5 per cent and \*\*\* at 1 per cent.

67 FSB report, *Sharing Prosperity: The Future of UK Business support*, A joint report from the Enterprise Research Centre and FSB (November 2018), available at <https://www.fsb.org.uk/docs/default-source/fsb-org-uk/fsb-sharing-prosperity-report-final.pdf?sfvrsn=0>.

68 FSB report, *Learning the Ropes: Skills and training in small businesses*, available at <https://www.fsb.org.uk/docs/default-source/fsb-org-uk/skills-and-training-report.pdf?sfvrsn=0>.

## Role models

Access to finance works hand-in-hand with personal business networks. The lack of ethnic minority role models, particularly among women, may inhibit ethnic minority individuals from turning their ideas into successful business ventures. The McGregor report suggested that where there is a lack of aspiration, this is often linked to a lack of ethnic minority role models or mentors. People tend to use role models who ‘match’ themselves in terms of ethnicity, and role models can be a source of self-efficacy, performance standards and inspiration by demonstrating their possible future selves.<sup>69</sup>

A recent study by the ERC and JP Morgan highlights that, in relation to getting external advice, women and ethnic minority entrepreneurs are more likely to consult friends and mentors and less likely to consult lawyers or accountants than male, non-ethnic groups.<sup>70</sup>

The Integrated Communities Strategy identified how some communities may face more hurdles due to gender, race and religion:<sup>71</sup>

*“...despite significant strides in gender inequality in recent decades, women and girls, particularly in some ethnic minority communities, are often the most likely of all to be held back by poor language skills and to have lower levels of employment and economic activity.”*

Many FSB members have highlighted the importance of ethnic minority role models.

### CASE STUDY

*“There are a lot of young Asian girls that have said if you can do it (become an architectural professional) – I can too. They feel that because I’ve come from a similar background – my experience has given them the confidence to carry on.”*

**Saira Hussain, Hussain Architectural Design Limited, Burnley, Blackburn and Manchester**

### CASE STUDY

*“I have built a career in an industry in which a very small percentage of the workforce, looks like me, both in terms of gender and race. Diversity in business is therefore extremely important to me. I enjoy spending a considerable proportion of my time mentoring women, ethnic minorities, and those who have social mobility issues, highlighting that they can also enjoy successful careers and challenge the status quo.”*

**Roni Savage, founder Jomas Associates, London**

69 The time for talking is over now the time to act: Race in the workplace, The McGregor-Smith Review, available at [https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/594336/race-in-workplace-mcgregor-smith-review.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/594336/race-in-workplace-mcgregor-smith-review.pdf).

70 Building better business resilience: Understanding business resilience among under-represented groups in London (December 2018), available at <https://www.enterpriseresearch.ac.uk/wp-content/uploads/2018/12/JPM-Preliminary-Report-Final-Revised.pdf>.

71 HM Government, Integrated Communities Strategy Green Paper, available at [https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/696993/Integrated\\_Communities\\_Strategy.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/696993/Integrated_Communities_Strategy.pdf).

## Recommendations

### UK Government should:

- **Introduce a dedicated scheme to help ethnic minority-led businesses to access external finance.** More needs to be done to encourage highly skilled self-employment amongst Britain's ethnic minority population, especially for women from certain ethnic minority groups. Alongside awareness-raising, a dedicated scheme – similar to the now defunct Aspire Fund – would help more ethnic minority-led businesses access the external finance they need to grow. A scheme targeted at women from certain ethnic minority groups could be game changing. More broadly, the UK Government must recognise the importance of ongoing business support throughout business lifecycles.<sup>72</sup>
- **Create effective mentoring circles for ethnic minority women who have experienced long-term unemployment and who may have English as a second language.** This should be rolled out across the JobCentre Plus network, similar to the existing initiative for ethnic minority youth jobseeker plus claimants. The focus should be on areas where there is a higher ethnic minority employment gap of women from underrepresented ethnic minority groups. Role models are a powerful way of inspiring individuals to seriously think about self-employment.

### Ethnic minorities employed in small businesses

Data from the Office for National Statistics found that 14 per cent of the UK working age population was of ethnic minority origin. Our research found that over the last three years 19 per cent of FSB small businesses have recruited at least one person from a Black, Asian and Minority Ethnic group.

The Race Disparity Audit alongside the Cabinet Office's Ethnicity Facts and Figures website provides Government with key data to influence policy in this area. It shows that around one in 10 adults from a Black, Pakistani, Bangladeshi or Mixed background were unemployed, compared to one in 25 White British people.<sup>73</sup>

Research from Business in the Community's (BITC) Race at Work 2018 report found:

*"...in 2018 BAME employees are more likely than White British employees to register with a recruitment agency (57% vs 46%)."*

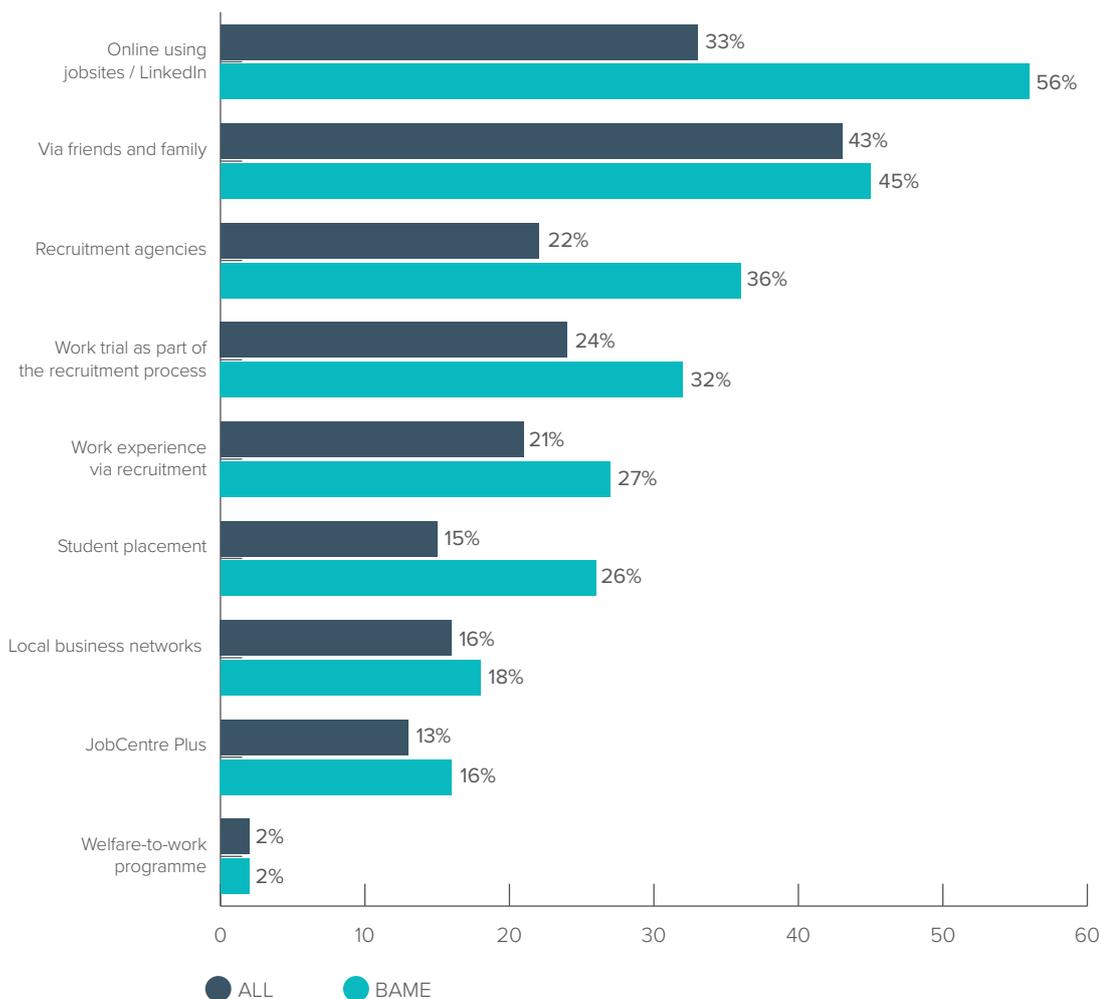
<sup>72</sup> FSB report, Going for Growth: Helping small firms flourish through access to finance, available at <https://www.fsb.org.uk/docs/default-source/fsb-org-uk/going-for-growth-final.pdf?sfvrsn=0>.

<sup>73</sup> Womens and Equalities Committee - Race Disparity Audit.

Figure 11 highlights an increased reliance on recruitment agencies among those businesses that employ at least one ethnic minority worker (36% compared to 22% across all smaller business employers).

**Figure 11: Proportion of FSB smaller employers using different recruitment methods**

**Source: FSB survey, 2018**



Of those small businesses that employ at least one ethnic minority member of staff, 54 per cent say they recruit via the use of work experience or by offering work experience. This compares to 41 per cent for all small employers. This is encouraging, but more needs to be done. Many small businesses recognise the importance of work experience. However, the UK Government’s decision to abolish compulsory work experience in schools in 2012 has led to less business engagement with young people including young people from ethnic minority backgrounds.

Educational attainment is key to employment and economic success. The entry rates for 18 year olds from all ethnic minority groups increased in 2016 and reached the highest recorded values for each group. 18 year olds from all ethnic minority groups were more likely to enter Higher Education than those from the White group. Of young people who took level 3 qualifications (for example, A levels) in 2014/15, 90 per cent of Black African and Indian students stayed in education or employment for at least two terms the following year.<sup>74</sup>

74 Womens and Equalities Committee - Race Disparity Audit.

Research by Business in the Community (BITC) has highlighted the importance of work experience, recommending that:<sup>75</sup>

*“...employers should seek out opportunities to provide work experience to a more diverse group of individuals, looking beyond their standard social demographic.”*

Furthermore, the British Youth Council report on work experience suggests that:<sup>76</sup>

*“...growing competition for ‘aspirational’ placements in fields such as law, media and politics in particular, access becomes ‘more exclusive’ and based on ‘who you know’... disproportionately affecting Black and Minority Ethnic students.”*

### CASE STUDY

*“Small businesses community engagement with schools is really important, children need to have role models in their communities. Going into schools and giving young people the opportunity to see people who look like them working in the creative industries is very important to improving diversity. We can see that our contact with young people impacts their career decisions.”*

**Steve Gear, Calling The Shots Films, Bristol**

More organisations are recognising the importance of diversity within the workplace. A diverse workforce brings a range of values, skills and experiences. The Chartered Institute of Personnel and Development (CIPD) stated in its research into Diversity and Inclusion that:<sup>77</sup>

*“...organisations should understand that diversity is necessary, but the organisational context needs to support that diversity and be inclusive, in order to see positive outcomes for the business and individuals.”*

Arguably, the lack of hierarchical structures within smaller businesses fosters greater inclusivity, thus enabling individuals to contribute to the development of creative processes. FSB research found that 36 per cent of small employers say providing their workers with greater autonomy and the ability to make a difference has led to the creation and/or development of a new product. For those employing at least one ethnic minority worker, this figure rises to 39 per cent.

In addition, 44 per cent of small employers say changes to flexibility arrangements has led to new business processes. For those employing at least one ethnic minority worker, this figure rises to 50 per cent.

<sup>75</sup> Business in the Community, The Scorecard Report 2018, Race at Work 2018: The McGregor-Smith Review one year on, available at [https://race.bitc.org.uk/system/files/research/bitc\\_race\\_at\\_work\\_report\\_sept\\_online-compressed.pdf](https://race.bitc.org.uk/system/files/research/bitc_race_at_work_report_sept_online-compressed.pdf).

<sup>76</sup> British Youth Council –Youth Select Committee 2018, Realising the potential of work experience, available at <https://www.byc.org.uk/wp-content/uploads/2018/11/Youth-Select-Committee-Realising-the-Potential-of-Work-Experience.pdf>.

<sup>77</sup> CIPD, Diversity and Inclusion at Work: Facing up to the business case, available at [https://www.cipd.co.uk/Images/diversity-and-inclusion-at-work\\_2018-facing-up-to-the-business-case-1\\_tcm18-44146.pdf](https://www.cipd.co.uk/Images/diversity-and-inclusion-at-work_2018-facing-up-to-the-business-case-1_tcm18-44146.pdf).

## Ex-offenders in small businesses

### Recruitment of ex-offenders

Reoffending by those released from custody costs society around £15 billion per year.<sup>78</sup> Ex-offenders are 30 per cent less likely to reoffend if they have employment when they are released from prison.

FSB research finds that three per cent of small business employers say they have hired an ex-offender in the last three years. 52 per cent of small business employers recruited ex-offenders via friends and family compared to 43 per cent across all smaller businesses. This suggests that small firms are more likely to recruit ex-offenders from within their own networks. While these connections may benefit the individual ex-offenders, small businesses require more support and guidance in encouraging fair and inclusive policies and procedures that enable the recruitment of people with convictions.

#### CASE STUDY

*“One of our previous workers has a criminal conviction from when he was young person... he undertook work experience with us and later travelled with us on projects. I’ve been a bit more like a family to him, as he was my son’s best friend. The experience he gained with us has helped him, as he now works as a contractor on a nuclear power station.”*

**FSB member, design and production services, London**

Small business and social enterprise links to community organisations also enable the recruitment of ex-offenders.

#### CASE STUDY

*“Through a church in Nottingham, which had a food bank, people would come along and we would come into contact with them. Local churches are quite good at connecting us to people furthest away from the labour market...”*

*“Of our team of five employees who have a history of offending, four are still employed with us. They have worked for 15, 12, 10 and 3 months respectively.”*

**Matt Parfitt, Radiant Cleaners, Nottingham**

For those small business employers that say they have recruited an ex-offender, these benefits are more pronounced in some areas. 41 per cent say it has resolved a skills shortage (compared to a 37% small business average), 27 per cent say it has helped to increase retention (compared to 13% average), and 30 per cent say it has improved customer relationships (compared to 17% average).

### Employability initiatives

A number of employment initiatives exist within the prison system, such as The Clink Charity’s prisoner rehabilitation initiatives. The Educational and Employment Strategy highlighted that:<sup>79</sup>

*“Individual prisons have also built some highly effective partnerships with employers to deliver vocational training. The Halfords employment academies at Drake Hall and Onley are great examples of offenders being trained in skills that can lead to full-time employment on release.”*

However, many of these initiatives are solely or mainly focused on larger businesses. FSB’s qualitative evidence from members highlights that there is an appetite among some small firms to engage with prisons.

<sup>78</sup> Ministry of Justice, Education and Employment Strategy (May 2018), available at [https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/710406/education-and-employment-strategy-2018.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/710406/education-and-employment-strategy-2018.pdf).

<sup>79</sup> Ibid.

**CASE STUDY**

*“We expanded the business and needed more labour, so I connected with local young offenders institute and the local prison in Leicester. We worked on a programme with them to get people back into work. I would say it was semi successful, we didn’t get the numbers we wanted, but the people that joined us we trained and developed their work skills.”*

**Paul Baker, Bakers Waste Limited, Leicester**

However, some of these programmes have had mixed results, with small firms reporting that schemes are not always consistent, meaning that some prisons are more proactive about engaging with employers than others. Subsequently, employers’ experience of engaging with prisons can also be inconsistent. For Government to realise its goals in reducing the unemployment rate for ex-offenders, prisons need to develop stronger links with smaller firms.

**Increasing the number of ex-offenders in small firms**

The charity sector plays a strong role in reducing re-offending. Organisations such as Tempus Novo in Yorkshire and Clean Sheet, seek to reduce re-offending through employment.

**CASE STUDY**

*“Clean Sheet acts a recruitment agency for us, sifting out candidates that are suitably qualified for the job. As an employer I recommend Clean Sheet to other employers who want to employ ex-offenders.”*

**Matt Parfitt, Radiant Cleaners, Nottingham**

The charity sector, especially small and local charities, may find it easier to work with small businesses in terms of placing ex-offenders in employment, as the business owner is also the recruitment manager and thus is able to make decisions swiftly and inform the charity sector.

**CASE STUDY**

*“Small business owners make decisions quickly, which aids the recruitment process.”*

**Charity for ex-offenders, Yorkshire**

On release, ex-offenders may have myriad issues to contend with, such as individuals leaving prison with no fixed accommodation and no financial support,<sup>80</sup> so they may require additional support from their employer. Research from the House of Commons Work and Pensions Committee highlighted some of the issues faced by ex-offenders upon release:<sup>81</sup>

*“The challenge of finding safe, affordable homes for ex-offenders is not new and, particularly for this group, employment and settled accommodation often go hand-in-hand. Without a fixed address, prison leavers struggle to set up a bank account, receive benefits and apply for jobs.”*

The charity sector provides a vital role for small businesses by providing them with ongoing support throughout the ex-offenders’ employment. This can help the business owner and the ex-offender in dealing with issues, which may affect their employment.

<sup>80</sup> House of Commons: Work and Pensions Committee, Support for ex-offenders, Fifth Report of Session 2016–17, available at <https://publications.parliament.uk/pa/cm201617/cmselect/cmworpen/58/58.pdf>.

<sup>81</sup> Ibid.

FSB believes that the Ministry of Justice's (MoJ) New Futures Network is a worthwhile scheme, which seeks to engage with employers to take on ex-prisoners, with experts placed in every geographical prison group across England and Wales. However, the scheme will be judged on the proportion of ex-prisoners entering employment on release and then staying in work.

The employment strategy underway across a number of prisons, in conjunction with a reformed New Futures Network scheme, may provide an efficient way of addressing some of the skills shortages within England and Wales, especially in areas in such as construction and agriculture. However, many small businesses lack HR support, which may be particularly beneficial for helping ex-offenders who have returned back to the labour market.

## Recommendations

### UK Government should:

- **Enhance the Ministry of Justice's (MoJ) New Futures Network scheme.** FSB is concerned that the MoJ's New Futures Network scheme may not offer continued employment support. This would have the effect of leaving small business employers with ex-offenders that may require additional support, which the small business employer may struggle to provide due to the lack of HR provision within most small firms. We think the scheme should work to leverage and enhance the good work of charities, especially with regard to the on boarding process.
- **Provide a one year Employer National Insurance Contributions holiday for small firms who actively employ ex-offenders.** This will not only act as an incentive for smaller firms to recruit more ex-offenders, but it will also enable smaller firms to deal with some of the consequences which may arise if they recruit an ex-offender, for example an unforeseen absence to resolve housing issues, as well as supporting small business employers to upskill ex-offenders.

# PART 3: GOOD WORK INCLUDING FLEXIBLE WORKING

The Government's Good Work Plan highlights the importance of flexible working arrangements and how flexible working supports good quality work:

*“The Industrial Strategy outlined how a flexible workforce benefits the UK economy, and it creates opportunities for both employers and workers without a long-term commitment for either side.”*

In general, small businesses by their nature are agile. The majority of FSB small businesses that have staff, employ up to 10 people and are microbusinesses. This can lead to closer relationships between the employer and worker than in larger businesses. This may also mean there are fewer barriers for workers who wish to raise flexible working requests. Due to the time constraints of running a small business, many small business employers may not wish to take on the administrative burdens of dealing with a formal flexible working application. Therefore many smaller firms tend to prefer informal flexible working arrangements based on trust. Smaller firms can be more adaptable and agile in meeting a worker's needs following a change in personal circumstances. In contrast a change in personal circumstances cannot so easily be accommodated by formal flexible working procedures which may inhibit a worker from making a change to their flexible working arrangements, if they have already made an application in the previous twelve months. According to the CIPD:<sup>82</sup>

*“...small firms prefer informal arrangements, perhaps initially on an experimental basis (Jordan et al 2014). Employees can in these circumstances make their own individual arrangements (Rousseau et al 2016). Some employees may have anticipated a more favourable outcome (for them) from the informal route.”*

The aims of flexible working are clear. It enables an individual to balance childcare, lifestyle, family, caring commitments and work.

## CASE STUDY

*“Some of our staff take their children to school in the morning and work later. Others start earlier and collect their children from school, so they leave before 5pm. These are all informal relationships, with us agreeing with staff to reduce their hours over the school holidays.”*

**FSB member, design and production services, London**

Flexible working can be particularly important for recruiting and retaining labour market disadvantaged groups. This is relevant for small firms which are more likely to employ people furthest from the labour market (95%). In the last three years, 23 per cent of FSB small business have employed at least one individual returning to work after a career break, 4 per cent employ at least one person who is an unpaid carer and 78 per cent employ at least one worker aged 50 and over.

FSB research suggests that small businesses are successful at providing workers with a range of flexible working arrangements, with 69 per cent of FSB small business employers offering *all* staff some form of flexible working, rising to 89 per cent offering it to at least *some* or all staff.

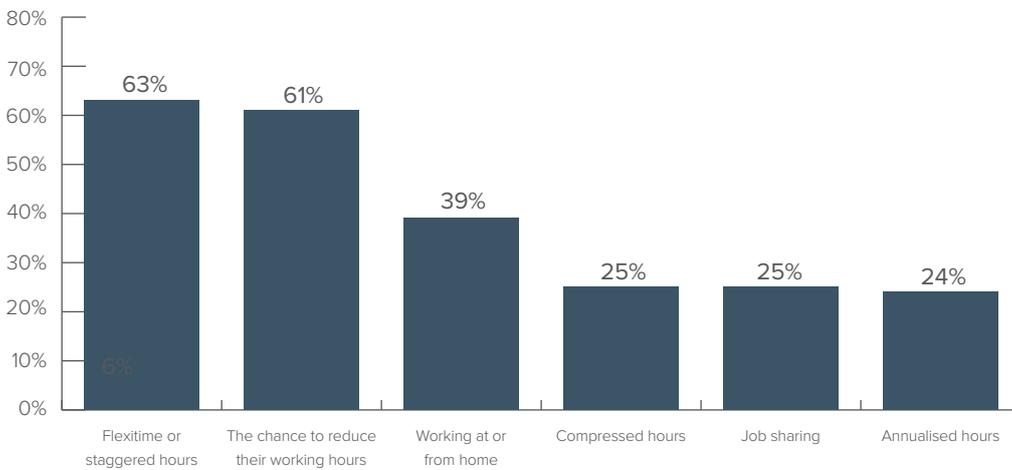
<sup>82</sup> CIPD, Megatrends: Flexible working report, 2019, available at [https://www.cipd.co.uk/Images/megatrends-report-flexible-working-1\\_tcm18-52769.pdf](https://www.cipd.co.uk/Images/megatrends-report-flexible-working-1_tcm18-52769.pdf).

## Types of flexible working

Figure 12 shows that the most common flexible working arrangements on offer in small businesses are flexitime or staggered hours e.g. the ability to choose the start and finish time of the working day and the chance to reduce working hours. 63% of FSB small business employers have at least one employee on a part-time basis.

**Figure 12:** Proportion of FSB small employers that offer different types of flexible working arrangements to some or all staff

Source: FSB survey, 2018



FSB’s data shows the extent of flexible working within small businesses. Our data compares well with similar data produced by CIPD in 2018, which captures the perspective of workers. CIPD surveyed over 6,000 workers, also finding that the most commonly available options of flexible working were flexi-time (available to 42% of workers) and working from home (available to 40%). One in three (34%) said they had the chance to reduce their working hours.<sup>83</sup>

## Benefits of flexible working

FSB research found that, of those small employers that have offered flexible working arrangements to staff, the majority (71%) recognise the consequential benefits this has had on their business, including the reduction of staff absences (44%), the creation of new business processes (44%), and additional business cost savings (39%). 36 per cent say providing staff with greater autonomy and their ability to make a difference has led to the creation and/or development of a new product.

**Figure 13:** Proportion of FSB small employers that state providing autonomy and flexibility to their staff has benefited their business

Source: FSB survey, 2018

	Changes to flexibility arrangements has led to new business processes	Providing my staff with greater autonomy and their ability to make a difference has led to the creation and/or development of a new product	Changes to flexibility arrangements has reduced staff absences	Changes to flexibility arrangements has led to improved business cost savings
Agree	44%	36%	44%	39%

83 CIPD, Megatrends: Flexible working report, 2019, available at [https://www.cipd.co.uk/Images/megatrends-report-flexible-working-1\\_tcm18-52769.pdf](https://www.cipd.co.uk/Images/megatrends-report-flexible-working-1_tcm18-52769.pdf).

The importance of flexible working may vary at different stages of an individual’s life and career. For example, parents who decide to return to work after caring for a child may seek to work locally and flexibly to build up their skills and experiences. This is where small businesses are vital, particularly in rural and fringe towns where there are few larger businesses (Figure 14).

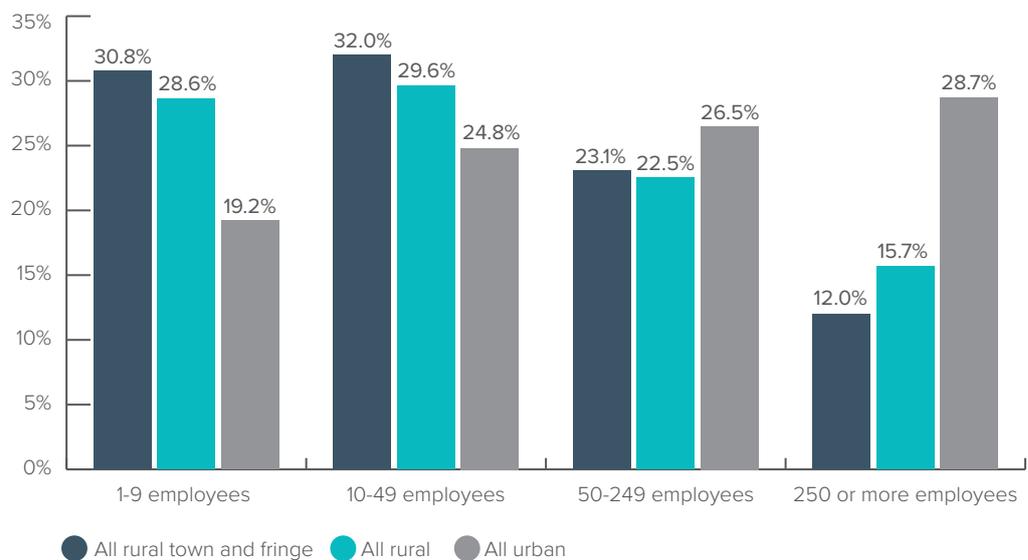
**CASE STUDY**

*“It’s not so much an age thing, but a generational thing. For staff that value family time, the fact that we offer them the ability to finish at 4.30pm or to work from home is one of the benefits they appreciate.”*

**Kirsty Peebles, Newsdirect, Edinburgh**

**Figure 14:** Number and percentage of people employed in local units of registered businesses by size band of the registered business overall and rural-urban classification, in England

**Source:** ONS, Inter-Departmental Business Register (IDBR) 2016/17<sup>84</sup>



Small businesses create viable options for those who wish to reduce their commuting times and/or maintain a close distance to childcare or schools. For many individuals, small firms not only provide employment, but provide employment closer to home which matches their skills set.

The UK Government should ensure small businesses are not prevented from providing informal flexible working arrangements. The introduction of the Flexible Working Regulations (2014) formalised the requirement to request flexible working. In some cases this has inadvertently created additional administrative burdens for smaller employers. FSB does not believe additional statutory requirements on smaller businesses will lead to optimal outcomes. Instead, policy makers should look for solutions that encourage behavioural changes in industries where flexible working is not as common. This will also apply to areas of the public sector, such as teaching.

In addition, smaller businesses need to be empowered to innovate and adapt their job design and wider business practices. This may require the adoption of new technologies that make remote working and other types of flexible arrangements easier.

<sup>84</sup> The Department for Environment and Rural Affairs, Statistical digest of Rural England, February 2018 Edition, available at [https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/682985/Businesses\\_February\\_2018\\_Digest.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/682985/Businesses_February_2018_Digest.pdf).

## Flexible working across sectors

The majority (89%) of FSB smaller employers offer flexible working to some or all of their staff. However, flexible working arrangements are always dependent on the nature of the business and, unsurprisingly, rates vary between sectors (Figure 15). For example, flexible working is offered to all staff by 88 per cent of smaller employers in the Information & Services sector, compared to 69 per cent across all small businesses. The figure drops to 56 per cent for those operating in the Wholesale/Retail sector, reflecting the less flexible nature of their businesses.

**Figure 15:** Proportion of FSB smaller employers that offer flexible working arrangements to their staff, by selected sector

**Source:** FSB survey, 2018

	ALL SECTORS	Accommodation & Food Services	Construction	Information & Services	Manufacturing	Wholesale/ Retail
To some or all staff	89%	88%	89%	96%	91%	83%
To all staff	69%	74%	67%	88%	61%	56%
To some staff	55%	50%	56%	59%	70%	54%

### CASE STUDY

*“Flexible working is difficult for us to implement – it wouldn’t work for us, as our staff have to complete certain tasks within a certain timeframe. We then have to think what jobs could be completed within the individual’s time frame for the work to be done. It becomes more time consuming for us and adds more burdens for us as employers.”*

**FSB member, Decorating business, London**

### Barriers to flexible working

Technology is vitally important to increasing flexible working in the small business workplace. According to CIPD research:<sup>85</sup>

*“...the majority of those employees using remote access thought that the technology helped them work more flexibly.”*

Again, previous research by FSB showed that the adoption of digital technologies is still relatively low amongst smaller businesses. Less than half of small businesses said they had used cloud services (40%), remote log-in to their work PC or laptop (31%), or a Virtual Private Network (12%). Increasing the adoption of digital technologies will not only benefit the competitiveness of small businesses, but also increase the take up of flexible working.

There are a number of reasons why SMEs do not adopt digital technology. Many SMEs simply do not know what is available, how it is being used by competitors and whether they are optimising the technology they do have. SMEs, especially microbusinesses, have fewer resources to overcome these problems. While bigger companies see digital technology as an opportunity for investment, smaller firms can often see it as a threat.

85 CIPD, Megatrends: Flexible working report, 2019, available at [https://www.cipd.co.uk/Images/megatrends-report-flexible-working-1\\_tcm18-52769.pdf](https://www.cipd.co.uk/Images/megatrends-report-flexible-working-1_tcm18-52769.pdf).

Government should focus particularly on less tech-orientated sectors where there are greater barriers to flexible working. The adoption of digital technologies, such as cloud communications, not only enables flexible working, but improves employee satisfaction, increases competitiveness, widens the talent pool and may reduce skills shortages. Despite increasing implementation of digital technology and ways of working into our everyday lives, the overall digital capability of small firms still requires improvement. Productivity growth in the UK will continue to stall without Government and industry action to tackle a digital skills deficit in small businesses.

FSB research shows that a quarter (26%) of small business owners report lacking confidence in their basic digital skills. FSB supports the Government's Digital Strategy (2017) and joined the Digital Skills Partnership Board to help increase the digital capability of small businesses. The Government has outlined the introduction of a new adult digital skills entitlement to support basic training, and the National Retraining Scheme which will help people re-skill and up-skill in priority areas, including digital. These are welcome additions to the landscape of support available to individuals to improve their digital capability. Government should encourage firms to adopt digital technologies. Smaller businesses will need to adapt in the medium to longer term if they are to successfully compete for and retain staff.

Learning from the Local Digital Skills Partnership pilots, Government should increase the number of these partnerships to tackle digital skills challenges locally. Government should arrange clear signposting to digital resources and advice to help small businesses to engage with or become more digital. Initiatives such as the 'Do it digital' campaign – its roadshows and workshops are helpful mechanisms to reach out to small businesses that have no digital skills at all. Government should reinvigorate this campaign and seek diverse ways of reaching out to small businesses that are at different stages of digital adoption.

In addition, too many small businesses are held back by poor broadband coverage and slow speeds. This will also impact workers who live within the same area they work in and who wish to work from home.

## Recommendations

### UK Government should:

- **As part of the statutory evaluation of the right to request flexible working in 2019/20**, deepen understanding on the ways in which flexible working is secured in smaller businesses. The review must not lead to legislation that creates unintended consequences in relation to the ability of small businesses to offer flexible working through informal processes. Government should continue to work with stakeholders to develop an evidence base to fully understand the nature of informal working and reward those that offer it.
- **Promote new-to-firm innovation amongst smaller businesses and the development of digital skills.** There should be a particular focus on the adoption of digital technologies, the development of digital skills, and the enhancement of management and leadership capabilities. The Government has outlined the introduction of a new adult digital skills entitlement to support basic training, and the National Retraining Scheme which must help people re-skill and up-skill in priority areas, including digital. The Government should increase the number of Local Digital Skills Partnerships to tackle digital skills challenges at a local level. Government should reinvigorate the 'Do it Digital' campaign.

### Good quality work in smaller businesses

The UK Government's Good Work Plan places the emphasis on quality of work, not just quantity:

*“This is the first time that the Government has placed equal importance on both quantity and quality of work and this ground breaking approach will have significant benefits, both for workers and employers... acknowledging that Good Work means different things to different people.”*

Small businesses make valuable contributions to the quality of work of their staff by creating work places which allow for greater inclusion for those from disadvantaged groups.

**CASE STUDY**

*“It’s not only about who you employ, it’s about retention, and if you look at retention then you need to look at engagement. One thing we are passionate about is engaging with employees, whether that is verbally, through newsletter, or surveys.”*

**Paul Baker, Bakers Waste Services, Leicester**

The lack of hierarchical structures and reduced bureaucracy found within small businesses may often lead to greater autonomy. Many FSB small employers report that their staff are empowered to share ideas and influence key decisions. Flexible working is key to facilitating this (Figure 16).

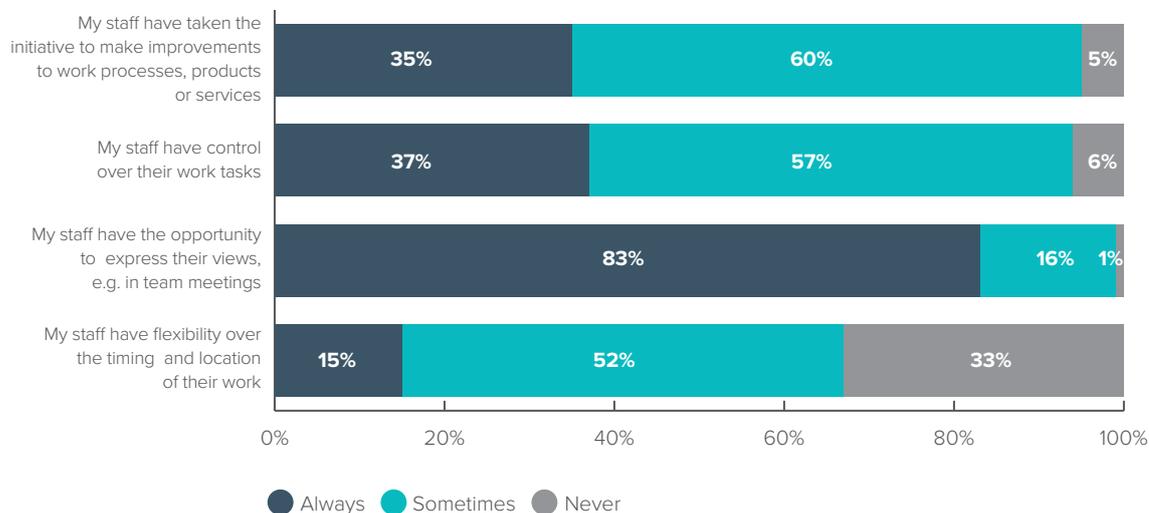
**CASE STUDY**

*“We adopt a flat hierarchical structure... I treat everyone as a mini CEO in the making. We don’t have the separation of ‘deciders’ and ‘doers’. We attract top talent to work collaboratively and think strategically together. I can’t pay them the same salaries as British aerospace, but they can learn more and experience more in a shorter time so they feel empowered to be creative and contribute ideas for the business. This is important for recruitment and retention. Our staff on average stay with us for two years and often when they leave, they double and even some times triple their salaries.”*

**Euan Cameron CEO, COHESION® Medical, Glasgow**

**Figure 16:** FSB smaller employer views about employee decision making

Source: FSB survey, 2018



The ability of employees within small businesses to influence their working environment may lead to greater innovation and a desire to increase skills.

FSB's report, *Spotlight on Innovation*, found that 86 per cent of innovating smaller employers were willing to take up ideas by their staff – a key indicator of employee engagement.<sup>86</sup> As an example of this, Green & Blue (an eco-product design microbusiness based in Cornwall) empowers their staff to suggest changes to the business. They provide ideas boards, located in the staff kitchen, so that everyone can share thoughts for new ways of working. As a result of this initiative, the firm made changes to how it packages its products and switched to a local glass bottle milk delivery service.

However, for many smaller firms, turning intent into practice is more challenging. FSB's previous research showed that very few (6%) of innovating smaller business employers have actually adopted an innovation as a result of the ideas of their staff. One of the major reported barriers to innovation in smaller businesses is the lack of available time.

Small business owners can, and do, play a powerful role in improving the lives of their employees through a variety of actions – from innovative and new ideas to simple steps such as encouraging more activity and regular breaks. FSB's wellbeing guide provides small employers with information and practical advice for businesses on mental health and general wellbeing. FSB supports ukactive, a not-for-profit health organisation whose mission is to get more people more active, more often. ukactive provides services and facilitates partnerships for a broad range of organisations from across the public, private and third sectors, from multinational giants to local voluntary community groups.

#### CASE STUDY

*The workplace is a key battleground, with sedentary office culture wreaking havoc on health. Many workers struggle to fit exercise into their days, leading to high rates of absenteeism and reduced productivity. In 2016/17, 1.3 million people suffered from work-related ill-health, equating to 25.7 million working days lost.*

*This has been estimated to cost £522 per employee, and up to £32 billion per year for businesses.*

*Now is the time to spark a sea-change with some sensible policies to boost the wellbeing of our workforce. Why not support smaller businesses by making it easier for them to offer employee benefits such as gym memberships or home equipment? The Treasury could broaden the Cycle to Work salary sacrifice scheme (estimated to have saved £5.1 billion through health benefits accrued through participation) to encompass gym passes and fitness products.*

*UKactive's policy, 'Workout from Work', would see companies able to purchase gym memberships or home equipment for their staff tax-free and let employees pay for them by salary sacrifice. Its own cost/benefit analysis estimates that, over the next five years, the scheme would generate £385.4 million in annual benefits for the Exchequer, including £210 million annual savings to the NHS.*

**ukactive**

The self-employed are a growing and important cohort of workers in the UK. There is increasing concern that the quality of work for many self-employed people is declining. The daily experience of work for many self-employed people is qualitatively different from many employees. There are therefore conditions that may be exacerbated for the self-employed including loneliness, mental health conditions and stress due to the fear of ill health or cash flow volatility. We therefore welcome the commitment to include, in a relevant way, the self-employed in the measurement of Good Work and the drive to improve the quality of work.

<sup>86</sup> FSB: Spotlight on Innovation, 2018, available at <https://www.fsb.org.uk/docs/default-source/fsb-org-uk/innovation-report-final.pdf?sfvrsn=0>.

## Recommendations

### The Industrial Strategy Council should:

- **Ensure that the measurement of flexible working, as part of the measuring Good Work agenda, contains metrics designed to capture the informal flexible working that characterises many smaller businesses.** FSB agrees that the measurement of good work is important. We support the Government's decision to request that the independent Industrial Strategy Council provides further advice on how best this can be achieved, building on the work led by Matthew Taylor. We welcome the fact that the Mathew Taylor review recognised the qualitatively different nature of small business experience relative to that of larger businesses in relation to the way flexible working comes about. As is recognised in the report, this approach is intended to capture the often more informal experience of people working in small businesses, in terms of securing flexible working, compared to the formal processes found in larger businesses.
- **Ensure the self-employed are not excluded from the commitment to measure the quality of work.** The daily experience and expectations of work for self-employed people often differs from those in employment. The nature of self-employment can increase the risk of loneliness and exacerbate existing mental health conditions, for example due to the fear of ill health or cash flow volatility. Therefore, FSB welcomes the commitment in *Measuring Good Work: The final report of the Measuring Job Quality Working Group* to include, in a relevant way, the self-employed in the measurement of good work and the drive to improve the quality of work.

# PART 4: SUPPORTING WORK AND HEALTH

## Disability and mental health

Despite the increase in the numbers of those with disabilities in employment rising to 49 per cent in 2017, the gap in employment rates ('the employment gap') between disabled and non-disabled people remains significant at 31 per cent. FSB research found that, 30 per cent of small businesses say they have recruited individuals with a disability or a mental health condition over the last three years.

Respondents to the survey were asked if (in their view) they had employed any of the following groups in the last three years:

- Somebody with a disability according to the definition in the Equality Act 2010 (i.e. the Equality Act defines a disabled person as someone who has a physical impairment that has a substantial and long-term adverse effect on the person's ability to carry out normal day-to-day activities)
- Somebody with a mental health condition (Mental disorders comprise a broad range of problems, with different symptoms. Examples are schizophrenia, depression, social anxiety, bipolar disorder etc.)

The information collected remained confidential and non-identifiable, and reflected the personal belief or understanding of the employer, reliant on those they employ being comfortable disclosing their conditions. Therefore, it is likely that this figure is an under-estimate, particularly with regard to hidden disabilities and mental health conditions.

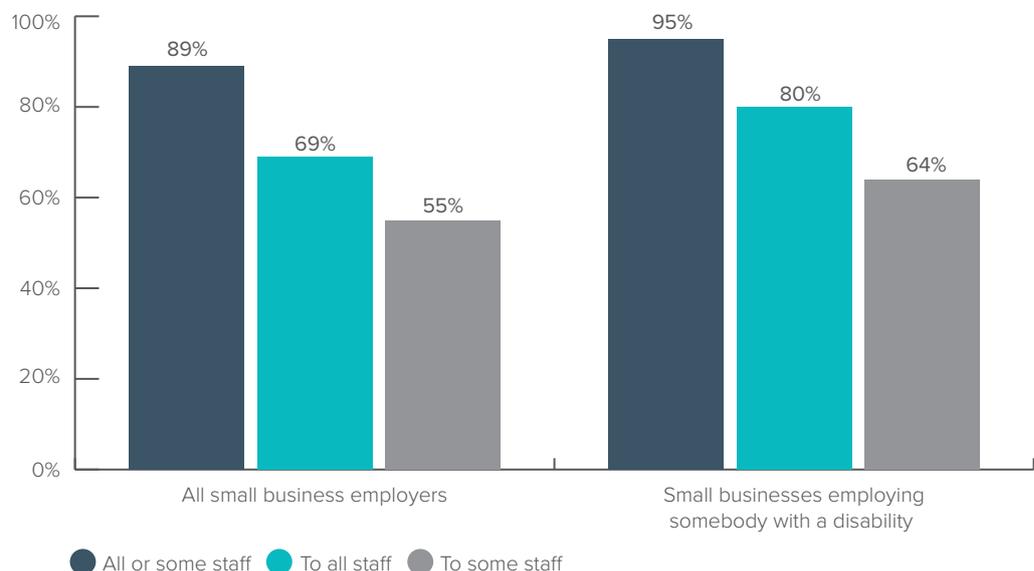
Government statistics suggest that 11.4 per cent of those that work in smaller businesses have a disability, compared to 10.3 per cent in larger private sector businesses.<sup>87</sup> Fifty per cent of all people with disabilities that are employed in the UK are employed in a small business. Therefore, smaller businesses have a critical role to play in delivering on the Government's pledge to get one million more people with disabilities into employment by 2027.

### What our evidence shows about people with disabilities in small businesses

Small businesses may be well placed to provide a conducive working environment for people with disabilities. The latest FSB research shows that most small employers provide flexible working to all staff (69%) or to some or all staff (89%). For those employing somebody with a disability, these rates are even higher (Figure 17).

**Figure 17: Proportion of FSB small business employers that offer flexible working arrangements to staff (compared to those that employ someone with a disability)**

Source: FSB survey, 2018



<sup>87</sup> GOV.UK, Work, health and disability green paper: data pack, available at <https://www.gov.uk/government/statistics/work-health-and-disability-green-paper-data-pack>.

In some areas, the ability to offer flexible working has an increased benefit for small businesses that employ somebody with a disability or a mental health condition. Of those that do, 38 per cent say it has helped to resolve skills shortages (compared to 27% across all small employers) and 32 per cent say it has helped to provide fresh perspectives and creative ideas (compared to 27% across all small employers).

## CASE STUDY

*First Step Trust (FST) is an innovative charity with over 25 years' experience of providing opportunities for people excluded from working life because of mental health problems or other disadvantages, including drug and alcohol recovery problems or a history of offending. FST has established a number of social enterprises to provide access to a range of work areas. For example, they have auto vehicle garages in Woolwich, Bexley, Lambeth and Salford. They also have a restaurant in Clapham.*

*An example of how FST helped one individual: Tegan joined FST after spending a long time in a medium secure unit. She started off working in the garage a few hours a week and (after a shaky start) with FST's support she went on to do her Level 1 and 2 IMI Motor Vehicle Technician qualifications at the local college. She then left FST in 2014 to take up a job with London Hire a large minibuss and van hire company who put her through her Level 3 qualification. In October 2016, she then went to Aviva Bus Company where Tegan qualified for the IMI's IRTEC license as a Bus and Coach Service Maintenance Technician. Tegan is still with Aviva although she still has some 'wobbly days' she appreciates the time she spent with FST who continue providing support to her. FST has also learned from the process and is now working closely with Halfords Autocentres and the Institute of the Motor Industry to develop new opportunities for those furthest away from the lab market.*

**First Step Trust**

Informality in relation to recruitment and retention practices often found within small businesses can also benefit staff with more complex employment needs. Smaller businesses are easily able to explore alternative forms of recruitment and interview processes. Building on their ability to adopt alternative recruitment practises and to see the strengths in all applicants, 30 per cent of small businesses say they have recruited individuals with a disability or a mental health condition over the last three years. The retail, manufacturing and professional scientific sectors performed particularly strongly in this regard.

FSB research suggests that small business employers that use work trials as part of their recruitment are more likely to employ a member of staff with a known disability or mental health condition (32 per cent compared to 24 per cent across all small employers).

According to the National Autistic Society, work trials:<sup>88</sup>

*"...can give both an employer and potential employee a more meaningful opportunity to find out if they are right for each other."*

Only 16 per cent of autistic adults are in full-time work despite 77 per cent of those unemployed wanting to work.<sup>89</sup> Clearly, adults on the autism spectrum face a disadvantage in the labour market. Small firms can often work well for individuals with autism. The small and inclusive nature of small firms may lend itself to a positive working environment for people with autism. Assistive technology may also be useful to support and enhance communication for people with autism within the workplace.

88 National Autistic Society, The autism employment gap report, available at <https://www.autism.org.uk/get-involved/tmi/employment.aspx>.

89 Ibid.

## Barriers that prevent smaller businesses from doing more

Many small businesses may struggle to understand all of their legal obligations in relation to disabilities and employment. In 2018, the FSB helpline received almost 800 calls in relation to disability discrimination. In addition, the lack of knowledge about financial support available to small businesses employing individuals with disabilities may also act as a barrier.

### CASE STUDY

*“We struggle to know what types of government support we can access and when. Sometimes we’ve accidentally found out about something afterwards, so a simpler system to show everything that is available to an SME in one place, with all the different levels of support and with all the potential funding support that is available, would be great. It would also be great if it also contained useful case studies.”*

**FSB member, Social care sector, Hertfordshire**

FSB evidence suggests that seven per cent of FSB small businesses made a reasonable adjustment to working arrangements for their staff in the last twelve months. This increases to 18 per cent for those that know they employ somebody with a disability or a mental health condition.

Mental health and musculoskeletal conditions remain the main reason for sickness absence. People who are off work for more than four weeks are more likely to fall out of work permanently. The NHS Long Term Plan states that personalised care plans that support people to manage their condition in work, with reasonable adjustments where needed, will reduce people becoming unemployed.<sup>90</sup>

Small firms may struggle to introduce larger and more expensive reasonable adjustments within the workplace. Last year’s decision to increase the Access to Work grants by 36 per cent was welcome. However, if more people with disabilities and mental health conditions are to gain and stay in employment, the Access to Work scheme will need to be promoted to ensure individuals with disabilities can benefit from it.

### CASE STUDY

*“...one of our drivers has a disability, and we know that he finds it easier to drive an automatic vehicle. However, the automatic vehicle that we need to get is about £2,000 more than our standard vehicle. This is a big cost to us. He has his own disability approved car, but he is not allowed to use that for work, and we haven’t been able to gain any funding to help, so additional funding would definitely help.”*

**FSB member, Social care sector, Hertfordshire**

Furthermore, the 2017 Improving lives: the future of work, health and disability paper stated:<sup>91</sup>

*“...102 Small Employer Advisers are working with SMEs in the local community to create job opportunities for people who have a health condition or disability.”*

However, there is very little evidence as to the impact of Small Employer Advisers.

There have been a number of policies introduced by Government over the course of the last ten years which have sought to reduce the disability employability gap. Access to Work is widely seen to be successful. The recent addition of 1,000 mental health support placements, which will provide six months of support to those with mental health conditions to start new jobs, is a welcome measure. However, awareness of Access to Work remains poor, with only 25 per cent of employers having heard of it.<sup>92</sup>

<sup>90</sup> The NHS Long Term Plan, 2019 available at <https://www.longtermplan.nhs.uk/wp-content/uploads/2019/01/nhs-long-term-plan.pdf>.

<sup>91</sup> Improving Lives: The Future of Work, Health and Disability, available at [https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/663399/improving-lives-the-future-of-work-health-and-disability.PDF](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/663399/improving-lives-the-future-of-work-health-and-disability.PDF).

<sup>92</sup> The Centre for Social Justice, Rethinking Disability at Work, available at [https://www.centreforsocialjustice.org.uk/core/wp-content/uploads/2017/03/CSJJ5158\\_Disability\\_report\\_220317\\_WEB.pdf](https://www.centreforsocialjustice.org.uk/core/wp-content/uploads/2017/03/CSJJ5158_Disability_report_220317_WEB.pdf).

As of November 2018, only 10,000 businesses have signed up to the Disability Confident Scheme since its introduction in 2013.<sup>93</sup> This is a disappointing rate of take up. However, 77 per cent of the 10,000 businesses that have signed up to the Disability Confident Scheme are SMEs, with just over a third (34%) being microbusinesses.<sup>94</sup> A more proactive approach is required to increase disability employment rates among smaller firms, especially as a report from the Disability APPG estimated that, with the current policies, as of 2016-17, it would take 50 years to meet the Government's pledge to halve the disability employment gap. Many small businesses will already be outperforming larger ones in terms of Disability Confident. This is because all three levels of Disability Confident measure processes and procedures being in place and not job outcomes.

## Self-employment and disability

Disabled workers have a self-employment rate of 16 per cent compared to 13 per cent for non-disabled workers.<sup>95</sup> Four per cent of FSB sole traders self-report they have a disability and five per cent say they have a mental health condition. It should be noted that members may not wish to disclose whether they have a disability or mental health condition, so this is highly likely to be an underestimate.

The Improving Lives Green Paper states:<sup>96</sup>

*“We also recognise that self-employment may be attractive to people with a health condition or disability and that it is important to provide them with support to start, sustain and grow their self-employment. We will therefore continue to build our evidence base, working in partnership with stakeholders to ensure we provide people with the best opportunities to succeed in self-employment when this is the right thing for them to do.”*

Self-employment may provide an individual with a disability with greater autonomy and control than employment. However, it can sometimes be a lonely experience and there can be real mental health challenges for those in self-employment. Personal accounts from self-employed disabled people bring to life some of the specific circumstances that lead them into self-employment.

Self-employed individuals with disabilities may wish to go into self-employment from a period of unemployment, and may be subject to Universal Credit rules and regulations. These individuals may miss out on support, not because their income is too high, but because their income is volatile. The self-employed should be treated fairly under Universal Credit. FSB believe there are steps that can be taken to ensure the system adequately supports the self-employed and promotes entrepreneurship.

Research from Disability Rights UK found that:<sup>97</sup>

*“...the nexus of benefits, taxation and government financial support for disabled people in self-employment is complicated and bureaucratic in terms of evidence and administration of paperwork required for eligibility, application, renewal and claiming back costs. This leaves many disabled self-employed unable to find their way through the intersecting routes of the benefits, taxation and support systems.”*

93 GOV.UK, Disability Confident: employers that have signed up, available at <https://www.gov.uk/government/publications/disability-confident-employers-that-have-signed-up>.

94 Hansard, Disability Confident Scheme, 10 January 2018, available at <https://hansard.parliament.uk/commons/2018-01-10/debates/80C1600A-0002-431B-9B02-E185F4E1DD48/DisabilityConfidentScheme>.

95 Disability Rights UK, Ahead of the Arc report, December 2016, available at <https://www.disabilityrightsuk.org/news/2016/december/mps-and-peers-offer-plan-support-six-million-disabled-people-work>

96 Improving Lives: The Future of Work, Health and Disability, available at [https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/663399/improving-lives-the-future-of-work-health-and-disability.PDF](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/663399/improving-lives-the-future-of-work-health-and-disability.PDF).

97 Disability Rights UK, Ahead of the Arc report, December 2016, available at <https://www.disabilityrightsuk.org/news/2016/december/mps-and-peers-offer-plan-support-six-million-disabled-people-work>.

## Recommendations

### UK Government should:

- **Continue to promote Access to Work.** This should also include awareness raising and myth-busting. For example, many businesses are not aware that micro and small businesses (less than 50 employees) are exempt from employer contributions to Access to Work. In order to improve Access to Work further, Government could act to ensure that processing and payment times are reduced, and to ensure that it is possible to claim for employer and staff time in both processing the application and providing reasonable adjustments. Cost sharing should not be applied after an employee has been working for an employer for longer than six weeks. It should be made simpler and easier for an employee to take their equipment with them when moving from one employer to another. The system needs greater clarity and, in effect, equipment should be attached to the employee rather than the employer. This is both more administratively efficient and will mean employees can start new roles with the equipment they need.
- **Create a new level 4 within the Disability Confident Scheme.** A new level 4 should be created where accreditation depends on achieving actual job outcomes. This would enable small businesses with a proven track record in the recruitment, progression and retention of disabled employees to claim recognition at level 4. The current levels 1 to 3 are considered to have disadvantaged smaller businesses because they rely more on the measurement of processes and procedures. For larger companies that have signed up to the Disability Confident Scheme and that have robust mental health support procedures in place, Government should consider how they can be encouraged to assist smaller firms in their supply chains. This could provide millions of small firm employees with access to specialist support.
- **Introduce a one-year Employer National Insurance Contributions holiday for smaller businesses employing people with disabilities and mental health conditions.** UK unemployment is at record lows, but we are far from real full employment. The NI holiday would fulfil the Conservative Party manifesto promise to incentivise small businesses to hire and retain the most disadvantaged in our communities. Linking subsidies to those furthest from the labour market, such as those in receipt of welfare for a set period, would further target such a subsidy. 39 per cent of FSB small business employers stated that a reduced employer NI contribution would assist them in employing staff.

## Managing sickness absence

Data published by ONS in July 2018 found that the average number of sickness absence days that UK workers take has almost halved since records began in 1993. However, ONS also suggested that:<sup>98</sup>

*“...it may be possible that individuals in smaller workforces are under more pressure to make up any lost hours.”*

Dealing with an employee who is off sick, either for multiple long periods, or for one continuous period, can be complex for any organisation. The impact of managing sickness absences within smaller businesses is even more acute due to the inevitable tighter financial constraints and common lack of human resources support. Long term sickness absence may not affect small firms frequently, but when it does occur it has a significant impact on them.

Previous FSB research found that the vast majority of absences last 2-3 days.<sup>99</sup> Our more recent analysis found that 27 per cent of small business employers say they have experienced persistent, intermittent, short-term ill health absences and 30 per cent reported an employee sickness lasting at least four consecutive days. The uncertainty of when staff will return, the cost of hiring a temporary replacement and the loss in profit and productivity can place significant strain on a firm.

<sup>98</sup> Office for National Statistics, Sickness absence falls to the lowest rate on record, 30 July 2018, available at <https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/employmentandemployeetypes/articles/sicknessabsencefallstothelowestrain24years/2018-07-30>.

<sup>99</sup> FSB 2010 survey.

Thirty per cent of small business employers have, in the last 12 months, experienced sickness absence of longer than four consecutive days (and are therefore eligible to pay SSP). For those that employ at least one worker over 65, this figure rises to 38 per cent, suggesting that longer term sickness is a higher risk for those that employ over 65s.

For those small businesses that do employ over 65s, 41 per cent say sickness absence has cost them more than £1000 in the last 12 months. This figure is significantly higher than the average for all small business employers (34%), again implying that those that employ over 65s face higher costs associated with sickness absences.

Figure 18 illustrates how sickness absence may impact a business. It is important to understand the full scope of these costs, including the additional costs from replacement workers, added payroll complexity, additional employer and employee time.

**Figure 18: Impact of long term sickness absence on small businesses**

Direct costs	Indirect costs
Replacement cover	Lost productivity and continuity
Overtime costs	Business owner time spent managing sickness absence
Medical referrals	Increased pressure on remaining staff

### CASE STUDY

*“I had one employee who was diagnosed with cancer and at the same time one employee was suffering from severe depression. This was a horrendous time for us as a business on a personal note, as we are a small close team. However, I couldn’t afford to hire replacement staff due to the Statutory Sick Pay costs. During that year this cost me £6,000. Due to the impact of managing SSP, the business could not grow that year, as I was unable to invest in expansion.”*

**FSB member, Sports club owner, Scotland**

### Statutory Sick Pay (SSP)

All employees, with certain exceptions, are entitled to receive statutory sick pay (SSP) from their employers, should they become too ill to work. The 2018/19 weekly SSP rate is £94.25.<sup>100</sup> Following the 2011 Independent Review of Sickness Absence, the Government accepted the recommendations to establish a health and work advisory assessment unit and to introduce a Fit for Work service. It subsequently abolished the Percentage Threshold Scheme (PTS) which was estimated to have cost £520 million in 2014/15. The decision was made to reinvest these funds into the Fit for Work scheme.<sup>101</sup> However, in 2018 it was announced the Fit for Work scheme was to be abolished due to low referral rates.

Previously, through the PTS, small employers could recover SSP costs that exceeded the equivalent of 13 per cent of their monthly National Insurance Contribution liability. In practice, this meant the support was targeted at the very smallest firms with long-term or multiple staff absence. Since the time of abolition in 2014, smaller businesses could find themselves paying as much as £2,451.40 in SSP costs, should an employee be off for the full 28 weeks. For many firms, the additional costs are substantial and the money lost could otherwise be reinvested back into the business or used to take on new staff. In some cases the loss of PTS has been devastating for SMEs.

<sup>100</sup> GOV.UK, Rates and thresholds for employers: 2018 to 2019, available at <https://www.gov.uk/guidance/rates-and-thresholds-for-employers-2018-to-2019#statutory-sick-pay-ssp>.

<sup>101</sup> Parliament UK, Written Questions and Answers, Statutory Sick, Statutory Sick Pay: Written question – 3835, 23 June 2015, available at <https://www.parliament.uk/business/publications/written-questions-answers-statements/written-question/Commons/2015-06-23/3835/>.

**CASE STUDY**

*“One of my employee’s required hospitalisation and was off work for six months. The cost to my business amounted to around £4,080, with no refund assistance from the Government. This nearly finished us. In the interim I have had to prop up the company from my own limited funds to ensure its life and the future employment of myself and my staff.”*

**FSB member, Environmental business, Warwickshire**

**SSP and phased return to work**

The *Improving lives: the future of work, health and disability* paper stated that SSP should be reformed to incorporate phased return to work.<sup>102</sup> An employee can undertake a phased return to work at present. This will usually be as a result of medical advice, in the form of a fit note provided by the employee’s GP.

FSB research found that nine per cent of FSB small business employers have provided a phased return to work in the last 12 months. This figure rose to 13 per cent for small businesses that employ individuals with a disability or a mental health condition.

**CASE STUDY**

*“One of our members of staff had a heart attack and was off on full pay. When he came back after a period of a few months he came back on gentle duties only, so he was in the office. He is a valuable member of staff, so we wanted to support him during this difficult time, but the cost implications were significant, as it was difficult to replace him. We needed to find a specific person, so for a lot of time all of us were working 7 days a week to cover, so we really could have helped with monetary support.”*

**FSB member, Construction business, Shropshire**

Smaller firms can be hampered by a lack of bespoke HR advice and guidance. Those not large enough to employ a dedicated HR professional and unable to afford the cost of external support have to navigate through an often complex system of employment law and labour market regulation.<sup>103</sup> FSB’s *Regulation Returned* report found that 40 per cent of small business employers state that dealing with sickness absence, along with holiday pay entitlement, was one of the most difficult aspects of employment law.<sup>104</sup> Many small businesses have limited time and resources, which means they may struggle to properly interpret legislation and apply numerous and often conflicting pieces of guidance to situations in their workplace. Any additional changes to work and health policy should consider the time it will take for a small business to manage and undertake these changes.

**CASE STUDY**

*“Phased return may help in some circumstances by reducing the need for me to cover shifts. However, it must not be burdensome, if it adds additional administrative time as an employer”.*

**Peter Davys, Orrest Leisure, Manchester**

<sup>102</sup> Ibid.

<sup>103</sup> IPPR, *Small firms, giant leaps: Small businesses and the road to full employment*, available at [https://www.ippr.org/files/publications/pdf/Small-firms-giant-leaps\\_Apr2014.pdf](https://www.ippr.org/files/publications/pdf/Small-firms-giant-leaps_Apr2014.pdf).

<sup>104</sup> FSB, *Regulation Returned: What small firms want from Brexit, 2017*, available at <https://www.fsb.org.uk/docs/default-source/fsb-org-uk/fsb-regulation-returned-report.pdf?sfvrsn=0>.

## Recommendations

### UK Government should:

- **Support small firms in delivering a phased return to work through Statutory Sick Pay, on a voluntary basis. More broadly SSP should be reformed to incentivise employers to engage in good practice in helping their employee return to the workplace.** Government should consider revising existing legislation so that the operation of SSP does not dis-incentivise employers who are doing the right thing by enabling their staff to return to the workplace at a time that suits both parties. The Percentage Threshold Scheme (PTS) should be reinstated, perhaps through a model that links PTS support with small firms who can demonstrably show good practice in helping employees return to the workplace, for example through a phased return to work. This would send a clear message that Government is willing to help small businesses support their staff, and to embed best practice. A significant proportion of employees within small businesses work on a part-time basis (37%). If a phased return to work is to be incorporated into SSP, it must be easily incorporated for those who work part-time and for those who work flexibly. Engaging employers in a return to work plan is essential as they need to be directly involved as only the employer will know what is or isn't possible in their workplace.

## Occupational health

Occupational health (OH) is an important asset to support those in work with health conditions and disabilities. Where an employee has been absent for some time or if an employee discloses a long term health condition to their employer, the employer may wish to refer their employee for an occupational health assessment. At these assessments there is a consideration of the impact of the employee's work on their health, whether they are fit for the work that they are doing and what steps, if any, would assist the employee in returning to work. However, research undertaken by DWP indicated that only 38 per cent of the UK workforce had access to occupational health services.<sup>105</sup> Only 13 per cent of UK workers can access an occupational physician.<sup>106</sup> Unsurprisingly, therefore, recent evidence from FSB found that only ten per cent of small business employers offer occupational health support to their staff.

The likelihood of being disabled and/or experiencing multiple chronic and complex health conditions increases with age. FSB research indicates that, of those that employ staff, 78 per cent of FSB small businesses employ at least one person aged over 50. The 2016 Health Survey for England shows that 29 per cent of 60-64 year olds had two or more chronic conditions.<sup>107</sup> These factors are vitally important when devising robust occupational health solutions for small businesses and the self-employed. The NHS Long Term Plan, published in January 2019, states that:<sup>108</sup>

*"...mental health and musculoskeletal conditions remain the main reason for sickness absence."*

As small businesses employ 16 million people across the country, employees within small firms are likely to be impacted by these conditions. Employees in small firms and business owners rely heavily on the NHS, especially with so few small businesses having access to occupational health support. At present there is insufficient access to support for patients in the early stages of sickness. GPs have inadequate options for referral, and occupational health provision is disproportionately concentrated among a few large employers, leaving the vast majority of small businesses unsupported.

105 Young V, Bhaumik C. Research Report No 751. Health and well-being at work: a survey of employees. Department for Work and Pensions. London. 2011.

106 Nicholson PJ. Occupational Health Services in the UK – challenges and opportunities. *Occup Med (Lond)* 2004; 54:147-152.

107 Office for National Statistics: Living longer: how our population is changing and why it matters <https://www.ons.gov.uk/peoplepopulationandcommunity/birthsdeathsandmarriages/ageing/articles/livinglongerhowourpopulationischangingandwhyitmatters/2018-08-13>.

108 The NHS Long Term Plan, 2019 available at <https://www.longtermplan.nhs.uk/wp-content/uploads/2019/01/nhs-long-term-plan.pdf>.

## Awareness of OH services

Two fifths (41%) of FSB small businesses say they don't know enough about occupational health. An additional challenge identified by FSB research is the accessibility of information on workplace health and specifically on occupational health. Numerous FSB members report not knowing where to go for information, with many relying on the NHS as their first and last point of call. The number of occupational health advisors are reducing in numbers. The General Medical Council (GMC), found in its report that public health and occupational medicine specialists both declined by around a fifth from 2012 to 2018, to 1,060 and 571 respectively.<sup>109</sup>

FSB research has shown there are some important sectoral differences. Awareness of OH varies across smaller firms. In some sectors, OH tends to be built into the day-to-day activities of businesses, especially in sectors such as social care and health and safety. In other small business sectors – manufacturing, retail and professional, scientific and technical activities – occupational health support is less likely to be routinely offered to staff.

If access to occupational health is to be improved, significant changes within the occupational health sector are required. These changes are not just restricted to raising awareness and improving referrals. Other changes to be addressed are:

- the current model of OH provision does not meet the needs of employers or individuals
- the funding model for OH provision is unclear with a lack of consensus about where responsibility for providing and funding OH services rests: NHS, government, or employers
- lack of availability (too few qualified OH professionals) and concerns about the capability of OH services
- discussion and collaboration between GPs, employers, (the now defunct) Fit for Work service, other healthcare professionals, and Jobcentre Plus work coaches;
- lack of sectoral focus by OH providers.

## Government interventions

The Fit for Work scheme, introduced in 2015, not only had a low take up rate, but failed to engage with micro and small employers. In their evaluation of the scheme, the Government said:<sup>110</sup>

*“...of the employees referred and discharged from the service between October 2015 and December 2016, most worked for very large employers... and around half the employers and employees using the service had access to workplace occupational health services.”*

FSB has serious concerns that there is neither the capacity within the occupational health sector to support small business employees, and employers, nor is there sufficient training or support for GPs and other health professionals in relation to supporting people in work, especially in small businesses or self-employment.

<sup>109</sup> General Medical Council: The state of medical education and practice in the UK 2018, available at <https://www.gmc-uk.org/-/media/about/somep-2018/version-one---0412pm/somep-book-20187.pdf?la=en&hash=69655DF4D8E2B6039E463BFD7309C91B78A3D7B1>.

<sup>110</sup> GOV.UK, Fit for Work: process evaluation and feasibility of an impact evaluation, available at <https://www.gov.uk/government/publications/fit-for-work-process-evaluation-and-feasibility-of-an-impact-evaluation>.

## Recommendations

### UK Government should:

- **Explore the potential for tax breaks to incentivise occupational health within small firms.** This would encourage smaller businesses to pay for occupational health and may, in turn, ease the burden on an under-pressure NHS. Such an incentive may lead to increased output, efficiency, employment and productivity.
- **Provide specific support for smaller businesses to access the occupational health market.** The occupational health market is fragmented and very difficult to navigate. Government should further consider how to improve the awareness and knowledge of occupational health and occupational health products by improving advice (perhaps through an advice line), accessibility (perhaps through a portal) and support both at a national and local level.
- **Implement better occupational health through supply chains pilots.** These pilots should focus on scalable interventions that incentivise larger companies to provide access to occupational health for smaller businesses within their supply chains. Supply chains can play an instrumental role in improving access to occupational health within small firms. A smaller business could benefit from access to the resources, support and training that larger companies may have available to support staff with a disability or mental health related issue. Smaller businesses could also partner with other organisations that are able to provide bespoke help, advice, and support. This could work well in sectors such as construction, where there is a greater degree of small firms subcontracting to larger businesses through a supply chain.
- **Provide dedicated funding for self-employed occupational health pilots.** These pilots should focus on scalable interventions to support the self-employed to access occupational health and to provide a cash flow during a period of ill health. The self-employed in particular lack access to occupational health services. Many are left vulnerable when they find out the NHS does not provide help in this regard. The UK Government should support the development of self-organising models (e.g. Bread Funds) where the self-employed are able to come together under the umbrella of a legal structure, i.e. where an organisation is specifically created to enable the self-employed to cooperate to enable them to access help and support in the event of ill-health.<sup>111</sup>

<sup>111</sup> RSA, The Self-Organising Self-Employed: Empowering grassroots collaboration in the new Economy, available at <https://www.fsb.org.uk/docs/default-source/fsb-org-uk/self-organising-self-employed---final.pdf?sfvrsn=0>.

# PART 5: SUPPORTING SERVICE LEAVERS

## Service leavers and employment in smaller firms

Service leavers are a valued part of the community, having served their country in uniform and been prepared to make the ultimate sacrifice. Smaller firms are an important potential source of employment for service leavers. More than one in ten smaller firms has employed a service leaver within the last three years.<sup>112</sup> This equates to around 165,800 businesses across the UK.<sup>113</sup> This illustrates the extent to which a substantial number of smaller firms are, or have already been, involved in employing service leavers. Further, greater numbers of small employers are keen to take-on service leavers if and when opportunities to do so arise.<sup>114</sup> This highlights the potential for smaller firms to play a bigger role than they do currently in helping service leavers integrate into civilian life. Importantly, smaller firms that do employ service leavers derive substantial competitiveness benefits from their presence as a result of the range of skills and experiences that they have to offer.

### CASE STUDY

*“I employ three ex-service personnel and they have a tremendous work ethic. They have a resilient attitude which rubs off on other people in the team... they’re quite exceptional.”*

**Geraint Lewis, Call of the Wild, South Wales**

The benefits that can accrue through employing service leavers are perhaps more pertinent than ever for smaller enterprises as the UK labour market tightens and a steady supply of service leavers with a range of desirable skills continue to enter the civilian labour market. Equally important are the opportunities and advantages that employment in smaller enterprises can provide to service leavers looking for jobs in ‘civvy-street’.

However, both smaller firms and service leavers face a number of ‘co-ordination’ obstacles that can make it difficult for potential small employers to find and employ appropriate candidates, and for the latter to find suitable small businesses. Some of the most salient obstacles include:

- The inherent time limitations and resource, revenue and financial asset base constraints that smaller suffer from.
- Limited awareness among both small firms (about service leavers as a potential supply of labour) and among service leavers (of the opportunities provided by smaller businesses).
- Compatibility of skills between civilian business needs and what the military provide compounded by ‘gaps’ in understanding by both parties about where there is similarity and where there are differences and how ‘discontinuities’ might be bridged.<sup>115</sup>
- Difficulty in accessing the supply of service leavers as they leave the armed forces and matching specific individuals with the needs of particular small firms.

In recent years, there has been a notable improvement in the position of service leavers in the labour market.<sup>116</sup> Nevertheless, it seems that a proportion of service leavers are ‘under-employed’, e.g. service leavers in civilian employment frequently report that they are not in occupations concomitant with the skills-set and body of experience that they have built-up in the military.<sup>117</sup> Further, there are a proportion of service leavers that can find themselves further from the labour market relative to the majority of their veteran and civilian contemporaries’, e.g. they are less ‘work ready’ than both their civilian counter-parts and other service leavers and might face a range of additional challenges such

<sup>112</sup> FSB. Social value survey. 2018.

<sup>113</sup> ONS data suggests that in 2018 there were nearly 1.4 million employers in the UK. 7510 of these were larger businesses. The rest are smaller firms. 12 per cent of the remainder (1,381,775) equates to around 165,800. Source: ONS and BEIS. Business Population Estimates for the UK and Regions 2018. 2018.

<sup>114</sup> Previous FSB research found that around fifty per cent of smaller businesses would be keen to recruit former members of the armed forces in the future, suggesting a large ‘pool’ of potential employers for service leavers. Source: FSB. Reservists, service leavers and small businesses. 2016.

<sup>115</sup> RBL. Deployment to Employment: exploring the veteran employment gap in the UK. 2017.

<sup>116</sup> Estimates of working-age veteran employment status suggest that the rates of both employment and unemployment are comparable to those of the wider civilian population: 79 per cent employment rate among both working-age civilians and veterans and 3 per cent unemployment rate, also among both. Source: MoD. Annual Population Survey: UK Armed Forces Veterans residing in Great Britain, 2017. 2019.

<sup>117</sup> According to the Royal British Legion’s Ex-services Household Survey over half of younger-veterans made ‘...little or no use of their skills and experience in their current job, which is higher than the UK population’. Source: RBL. A UK Household Survey of the Ex-Services Community. 2014.

as long-term health conditions.<sup>118</sup> Both phenomena are, in part, a manifestation of a market failure in the labour market, to which smaller firms can be part of the solution. They can achieve this through being ‘entry points’ into the labour market and providers of fulfilling and steady work for service leavers which utilises all their various skills and experience.

## Service leavers and self-employment

An alternative to employment for service leavers is self-employment. FSB research found that six per cent of smaller businesses are owned by former members of the armed forces.<sup>119</sup> The proportion of the population with an armed forces background that are business owners is lower than the proportion of the civilian workforce that run their own business. Around 15 per cent of the latter are in self-employment.<sup>120</sup>

Self-employment comes with a range of advantages. This includes autonomy, enabling a number of desirable consequences such as a better work-life balance and considerable job satisfaction. Further, former members of the armed forces can be well placed to succeed in self-employment for a number of reasons. These include the skills and competences they’ve gained through their military experiences, e.g. a developed capability for risk-taking, flexibility and planning ahead, an extensive network of other veterans which opens up opportunities and a pension or lump sum to utilise as capital.<sup>121</sup>

Nevertheless, despite the presence of these potential success factors, service leavers can face considerable barriers to self-employment. According to a recent report into self-employment among service leavers, these barriers can include:<sup>122</sup>

*“...a lack of forward planning, research and self-reflection... a lack of personal finances or difficulty in getting financial support... mental health issues and physical health/disability...difficulty transitioning from the Services to the competitive commercial world that can characterise civilian life.”*

These help explain why, as illustrated above, self-employment is chosen less often by service leavers as a career option than by their civilian equivalents.

More service leavers need to be made aware of the many potential benefits of self-employment, so that it becomes an option that more service leavers actively consider. To improve its attractiveness, the numerous obstacles to self-employment need to be reduced and the various factors which influence success should be supported wherever possible. The X-Forces Enterprise published detailed research in 2018 about the benefits, risks and obstacles to self-employment for service leavers. The report contained an extensive range of policy measures for improving the opportunities for and the chances of successful self-employment among service leavers.<sup>123</sup>

118 RBL. Deployment to Employment: exploring the veteran employment gap in the UK. 2017.

119 FSB. Social value survey. 2018.

120 Lyonette, C., Barnes S-A and Owen, D. Self-employment and the Armed Forces Community. 2018.

121 Ibid.

122 Ibid.

123 Ibid.

## Recommendations

### UK Government working with civil society should:

- **Promote the benefits of self-employment to service leavers.** This can be done through ensuring clear and coherent information about self-employment and its benefits and risks is included in the career guidance offer provided to service leavers by the MoD's Career Transition Partnership (CTP). Government should also ensure that support is offered on a longer-term basis. This is because many service leavers often shift to self-employment some-time after leaving the armed forces.<sup>124</sup>
- **Help service leavers better prepare for a life of self-employment outside the armed forces.** Not only should there be the provision of key 'skills for life' to service leavers but, as X-Forces Enterprise highlights, the provision of key commercial skills should also be prioritised. The latter are invaluable for successful self-employment. Such provision should include opportunities for those members of the armed forces who are leaving and considering self-employment to be matched with a self-employment 'mentor' and 'shadow' people in self-employment before they leave and decide to take-up self-employment. It is important to ensure support is offered on a longer-term basis than currently, not least because many service leavers often shift to self-employment some-time after leaving the armed forces.<sup>125</sup> Further, the support package should include a comprehensive service that help those moving to self-employment deal with the administrative and other routine legal and procedural aspects of becoming self-employed.
- **Provide a specific Employer National Insurance Contributions holiday for a year for a small business that recruits a service leaver.**
- **Do more to make signing-up to the Covenant and obtaining the Employer Recognition Scheme Silver and Gold ratings more attractive to smaller firms.**
- **Ensure that military training and accreditation is mutually recognised by civilian accrediting institutions.** This inter-operability should be highlighted extensively to employers. Where there aren't clear military-civilian equivalents currently, methods of certifying equivalency in skills need to be found. This will need to be complemented by greater efforts from Government and civil society to raise understanding among employers of where skills acquired in the military are equivalent to (or indeed better) than civilian ones and that any equivalency certification guarantees rigorous skills levels. This should be buttressed by more opportunities for service leavers to get civilian 'work experience' with employers before they leave the armed forces.
- **Better co-ordinate the supply-side and the demand-side (i.e. smaller firms with labour needs).** Trusted networks are a key route for recruitment by smaller enterprises. Therefore help for service leavers to become part of local and regional networks and meet potential employers and build links would be beneficial. At the same time, such integration would enable smaller firms to become acquainted with service leavers in their regions and see their potential benefits.

<sup>124</sup> Ibid.

<sup>125</sup> Ibid.

# METHODOLOGY

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This report is based on FSB members' experiences and views on their community engagement and attitude to various employment issues. FSB undertook a mixed method approach for the research consisting of a quantitative online survey, two focus groups and 20 semi-structured interviews. The survey covered England, Wales and Scotland in its reach and members were invited to participate in the survey via email and social media channels.

The survey was administered by the research agency Verve and was in the field from 8 October 2018 – 19 October 2018. The survey questionnaire was completed by a total of 1,876 small businesses.

The semi-structured interviews were primarily conducted over the phone and included members from every devolved nation and purposefully drew from a variety of regions and sectors. These interviews were used to construct the detailed case studies that are included throughout the report. In a couple of cases, the in-depth interviews allowed for detailed accounts that address multiple sections of the report. These case studies were specifically selected for the breadth of coverage. The survey findings are all weighted according to FSB membership weighting (to reflect the demographic balance of FSB members throughout the UK). All percentages derived from the survey are rounded to the nearest whole number, which is why some percentages presented in the figures do not add to 100 per cent.







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