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Experts in Business

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WHO WE ARE

The Federation of Small Businesses (FSB) is a non-profit making, grassroots and non-party political business organisation that represents members in every community across the UK. Set up in 1974, we are the authoritative voice on policy issues affecting the UK's 5.5 million small businesses, microbusinesses and the self-employed.

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 England 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.

SCALING UP SKILLS

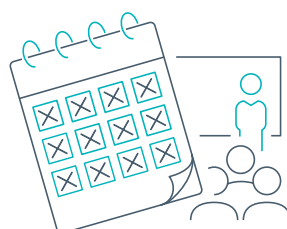
DEVELOPING EDUCATION AND TRAINING TO HELP SMALL BUSINESSES AND THE ECONOMY

THE CHALLENGE



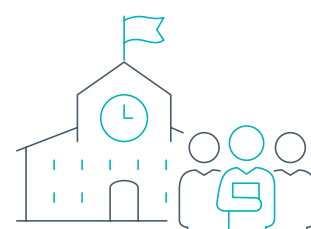
78%

of small firms in England have **struggled to recruit** in the past 12 months



40%

of sole traders in England **haven't undertaken training** over the last year



17%

of small firms in England **engage with schools and/or colleges**

TOP INCENTIVES TO PROVIDE MORE TRAINING



64%

of small employers in England say **government assistance with costs** would help them provide more training



48%

of small businesses in England flag more **tax reliefs** as an incentive to provide more training



37%

of small businesses in England cite **improved information, advice and guidance** as incentives to provide more training

OPPORTUNITIES TO GROW



21%

of small employers in England **would hire additional apprentice(s)** if the Government reintroduced a **£3,000 incentive** to do so



22%

of small employers in England would be **encouraged to host T Level placements** if financial support were maintained

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FOREWORD

Successful and growing small businesses are essential to the UK's economic success. Only when business owners and their staff are equipped with the right skills can their enterprise grow. Therefore, meeting the skills needs of small businesses is a key part of having a productive and growing economy. It is crucial that we evaluate how we can support individuals to develop the skills they require for successful careers, and ones that businesses require now and in the future.

The skills of business owners and their staff are central to running and growing a successful business. Aside from the more tangible benefits of learning new skills, such as the development of new products or technologies, training improves business competitiveness, efficiency and longer-term effectiveness. Essentially, keeping our skills up to date and learning new ones is an indispensable part of growing a business.

Yet even prior to the pandemic and Brexit, firms were facing challenges in recruiting the talented people they need to ensure economic growth. As the UK emerges from the Covid-19 pandemic, small businesses are experiencing both labour and skills shortages. There are simply not enough people, and enough suitably skilled people, to meet business demand.

A forward-looking, cross-departmental labour market strategy is a pre-requisite to solving the difficulties we have with skills mismatches in the labour market. We must also ensure all people have the basic skills they require to move onto higher level qualifications and developing more specialist skills sets. Ensuring that vocational training, such as apprenticeships and T Levels, are highly-regarded routes and are meeting business needs is also paramount.

Education and training can no longer be just for the first 20 or so years of life. With the country needing to respond to climate change, undergoing shifts in demographics, and with the ongoing automation and digitisation of work, lifelong learning must be more widely adopted. Effective support should be readily available to allow small business employers to support their staff to learn new and pertinent skills.

Leadership and management skills are widely accepted as being crucial to adopting innovation and productive businesses. As well as the skills required to effectively run a business, we need to also think whether we are delivering the skills to those who want to start an enterprise. The current young generation, “generation side-hustle”, have a huge amount of potential. Ensuring that they have the know-how to successfully turn their ideas into thriving businesses is an exciting prospect for them, and for the nation's economic ambitions.

This report provides policymakers with information and suggestions to address these complex problems. FSB is keen to continue to work with national and local governments and other stakeholders with the ambition of creating an education and skills system that supports a high-growth and productive economy.



Tina McKenzie

FSB Chair, Policy and Advocacy

EXECUTIVE SUMMARY

This report is focused on small businesses in England and outlines the problems they are facing with severe skills and labour shortages. The data used throughout the report, unless stated otherwise, are the responses of small businesses in England to a survey conducted in March 2022. While this report is focused on England, recruitment challenges for small businesses throughout the UK are severe. They are a huge barrier to growth for firms, and UK policymakers must address this issue as a pressing priority.

Skills and labour shortages are not limited to certain sectors, regions, or skill levels, but are a challenge faced by nearly all small businesses. Solving these two problems will take concerted effort from governments, education providers, and the business community. It is essential that policies relating to the labour market are co-ordinated between all relevant departments in Whitehall and devolved governments.

Much of the focus in recent years has been on the higher levels of qualifications, aimed at increasing the numbers of people going to university. In addition, since the introduction of the Apprenticeship Levy, participation in apprenticeships from older people at higher level qualifications has dramatically increased. Meanwhile, the number of people participating and attaining qualifications at lower levels has slumped. There are more young people leaving compulsory education without Level 2 qualifications, and there is less participation in apprenticeships at this level; fewer adults are taking further education courses at Levels 2 and 3, while in-work training tends to be focused on those already highly skilled.

To build a highly skilled economy, it is essential that opportunities to learn, develop and retrain are not limited to those who are already highly skilled – this is key if the UK Government seeks to achieve its levelling up ambitions, but also to drive productivity improvements and economic growth. Education and training policy needs to be targeted towards those who could benefit from this the most. These are themes that run throughout the report, which covers a wide array of different areas related to England's education and skills system.

Recruitment challenges

FSB research shows that 78 per cent of small businesses have experienced recruitment difficulties in the last 12 months. Our evidence suggests the most common reason for this is a lack of individuals with relevant qualifications, skills and experience. Many small firms have responded by increasing wages, benefits and training. Yet they can struggle to compete for talent against larger organisations.

It is clear from our research that small businesses can go further in terms of increasing training, but only with specific government support. New financial support for automation will ensure we narrow the automation gap between large and small business. The UK Government has the opportunity

to transform the labour market by implementing policies which support those furthest from participating in the workforce, and ensuring small firms have fair access to international talent. All of the above are essential if we are to ensure the economy grows and levelling up becomes a reality.

Education and skills development

Small businesses place great value in the compulsory education system. Our research shows that small businesses essentially need three types of skills: basic (literacy, numeracy, digital), 'soft' (personal development such as communication and problem solving), and technical (those related specifically to a current job). In all these areas, however, the system is falling short. We outline the need for better collaboration between businesses and education providers, and for improved careers advice.

Apprenticeships and T Levels

The increased focus on vocational and technical education in recent years has been welcome. To ensure T Levels are delivered successfully, and apprenticeship opportunities are available for all, engagement with small business employers is critical. Yet there has been a marked decrease in the number of small businesses hiring apprentices in recent years. The level of awareness about T Levels from small businesses is low. Those who are aware are concerned about their ability to host placements due to a lack of their own capacity to deliver.

Training in small businesses

Employers recognise the value and importance of investing in their future workforce. Our research suggests that small businesses are good at providing in-work training, but struggle in certain areas such as digital, personal development, and leadership and management. The report also looks at the need to increase focus on the self-employed who are less likely to participate in training but could potentially benefit hugely.

Entrepreneurs and self-employed people

Self-employment has played a valuable role in opening up employment to those who otherwise might not be in work. This growth has had enormous benefits for local areas and the wider economy. Despite this, these entrepreneurs are often neglected by policymakers devising skills and training policies. This needs to change. Enterprise and entrepreneurship education is an excellent tool, as it can provide students with alternative perspectives on their career options and provide them with the confidence to set up their own business.

KEY FINDINGS

Skills and recruitment

- Of those that have tried to recruit in the past 12 months, 78 per cent have experienced difficulties in recruiting staff due to various reasons, including:
 - A lack of individuals with relevant qualifications, skills and experience (82%)
 - Low number of applicants generally (60%).

Education and skills development

- Almost half (48%) of small business owners say that technical skills are important to achieving future growth.
- Four per cent of small business owners engage with schools and 15 per cent with Further Education colleges.

Apprenticeships and T Levels

- To overcome recruitment difficulties, 16 per cent of small business employers are looking to hire an apprentice.
- More than one in five small business employers (21%) say that reintroducing the £3,000 incentive to hire an apprentice over the next 12 months would lead to them hiring additional apprentices in that period.
- More than one in five small business employers (22%) say that financial support from the UK Government would encourage them to host additional T Level placements.

Training at small business employers

- Five in six small employers (83%) provided training for their staff and/or themselves over the past 12 months.
- Of those who provide training, the average number of days of training and development per staff member in the last 12 months is 7 days.
- 31 per cent have a training plan for the year ahead and 17 per cent have a budget related to training.
- Of the different types of training offered, three-quarters of small business employers (74%) say it was directly related to the employee's job role.
- A quarter (26%) of small business employers say leadership and management skills are the most important to future growth, and 26 per cent say they have undertaken leadership and management training over the last 12 months.

- The top incentives for small business employers to carry out more training include:
 - More government assistance with costs (64%)
 - More tax relief incentives (48%)
 - Improved information, advice and guidance on the training support available (37%)
 - More flexible training opportunities (37%)
 - Improved course quality (25%).
- Barriers to implementing training for the business owner or employee included:
 - Relevant training is not available locally (23%)
 - No relevant training is available (13%)
 - The quality of courses and/or providers is not satisfactory (13%).

Self-employed training

- Two in five sole traders (40%) had not been on any training or development courses over the past 12 months.
- Four in five sole traders (80%) are without a training plan, a training budget or a relationship with a training provider.

KEY RECOMMENDATIONS

Recruitment and skills challenges

The UK Government should:

- Establish an independent body that looks at the current and future labour market and provides policy recommendations across Government departments. This would make the Future Skills Unit independent of the Department for Education and give it the remit to work in close partnership with the Migration Advisory Committee as well as the Low Pay Commission.
- Enable small businesses to automate processes by providing R&D tax credits to those sectors with difficulties recruiting and with a high cost of automating processes.
- Introduce a 'Kickstart'-style Disability Employment scheme to get more disabled people into employment for the first time.
- Introduce a permanent, full Statutory Sick Pay rebate for small firms.
- Target employability innovation funds announced in the Prisons White Paper at small businesses to increase the employment rate of ex-offenders.

Education and skills development

The Department for Education should:

- Establish a target in legislation that by 2035 no young person in England should complete compulsory education without at least Level 2 qualifications.
- Establish in legislation that by 2035 three-quarters (75%) of the working age population (18 to 64 year olds) in England should have at least Level 3 qualifications. At least two-thirds of working age people in every English region should have these qualifications.
- Reform Ofsted inspections to give careers advice a more prominent role as one of the 'key judgement' areas.
- Ensure that young people have encounters with employers that reflect their local labour market through amending the statutory guidance for careers guidance to explicitly include reference to engaging with a range of employers.
- Develop a long-term education and skills strategy, aligned to overarching economic aspirations and the labour market strategy.

Apprenticeships and T Levels

HM Treasury and HM Revenue and Customs should:

- Maintain the Apprenticeship Levy, as this funding is needed for SMEs who want to hire an apprentice. The UK Government must continue to contribute 95% of the training costs for small businesses.
- Amend the current financial incentive of £1,000 for employers hiring an apprentice under 19 years old to a £3,000 incentive for those hiring an apprentice under 25 years old, and make the incentive exclusively for SMEs.
- Remove the 25 per cent cap on Apprenticeship Levy transfers so levy payers can transfer as much as they like to small businesses, and expand the regional levy transfer pilots.
- Reintroduce the £1,000 incentive for employers hosting T Level industry placements.

The Department for Education (and the Education and Skills Funding Agency) should:

- Maintain the flexibilities introduced during the pandemic with hosting T Level placements, including the ability to host at least a portion of the placement virtually.

The Institute for Apprenticeships and Technical Education should:

- Fast-track intermediate Apprenticeship Standards in sectors that were until recently used regularly – namely in digital and business and administration.
- Ensure that Apprenticeship Standards work for SMEs by boosting engagement beyond trailblazer groups, through an annual survey and a review of occupation maps.

The Department for Transport should:

- Introduce a bus pass scheme for all apprentices under 25, enabling them to travel for free.

Training at small businesses

HM Treasury and HM Revenue and Customs should:

- Encourage more people to train by offering tax relief to self-employed people who attend training to develop new skills and/or expand their business, not just to refresh existing skills.
- Increase the Corporation Tax relief for employers training low or medium-skilled employees. To encourage employers to train those with lower qualifications, the relief should remain at 100% for those employees with a prior Level 6 qualifications, boosted to 160% for those without a prior Level 6 qualification and boosted to 230% for those without a prior Level 3 qualification.
- Provide vouchers for small business employers to purchase external support developing a training plan or a workforce development strategy.

The Department for Education should:

- Support the self-employed in learning new skills, including the skills required to grow their business, through continued commitment to the EnterprisingYou project in Greater Manchester, supported by FSB and HM Treasury, and through expansion of the programme throughout England.
- Maintain Skills Bootcamps in the long term as an easily accessible fix to overcome skills shortages; and introduce a Line Management Bootcamp to improve management skills within SMEs.
- Build on the success of Skills Bootcamps by introducing 50+ Skills Bootcamps, which would provide the skills older people require to remain in or re-enter the labour market.

Entrepreneurs

The UK Government (England) should:

- Launch a nationwide young enterprise competition for both school leavers and university/college leavers. This competition would provide a contest winner from each English region with start-up funding for their idea, access and advice from a mentor, and cost of living support for one year after they complete their studies.

The Department for Education should:

- Provide grant funding so all schools can offer programmes to encourage enterprise, such as Young Enterprise's Company Programme.

- Revisit Lord Young's proposal of an 'Enterprise Passport', which should also include technical training related to entrepreneurship and be the equivalent of an A Level.

The Careers and Enterprise Company should:

- Develop a long-term strategy to promote enterprise to school children and ensure they have the knowledge and understanding of how to start a business.

The Office for Students should:

- Amend its proposals on student outcomes so that students starting a business after graduation are given equivalent treatment to those entering managerial or professional employment or going onto further study. The number starting their own business should be included in university league tables.

RECRUITMENT AND SKILLS CHALLENGES

According to the Office for National Statistics (ONS), there are more job vacancies than unemployed people in the UK. Between March and May 2022, 1,285,000 people were unemployed while in April to June 2022, there were 1,294,000 vacancies.¹ From January to March 2022, the ONS found that the total job-to-job moves increased to a record high of 994,000, driven by resignations rather than dismissals.² These statistics also found that since the start of the pandemic, around half a million more people have disengaged from the labour market, primarily driven by those aged 50 to 64 years. However, this trend improved slightly in the most recent data.

A tight labour market and high levels of competition amongst employers to attract and retain individuals has been a feature of the labour market for several years.³ The pandemic has exacerbated these issues, creating many issues for small businesses.

“In my 21 years of working in the recruitment industry this is the weirdest market I’ve ever seen.”

Paul Andrews, CEO of Jobs in Kent, South East

For the purposes of this report, we use the Regulated Qualifications Framework (RQF) skill level framework to classify the skill levels of employees. Small business owners with staff were asked to state whether they employed staff at any of the below skill levels. Small business owners were also asked to select the skill level that most accurately reflected the majority of their employees.

Survey participants were provided with a list of occupations for each skill level which are based on the RQF levels, which have been grouped together into a corresponding skill level: low; medium, and high-skilled. Throughout this report, skill levels refer to the occupation rather than the person employed in an occupation, and they also do not represent a judgement of the societal, or economic, value of such occupation.

1 Office for National Statistics, Labour Market Overview UK, July 2022, <https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/employmentandemployeetypes/bulletins/uklabourmarket/july2022>

2 Office for National Statistics, Labour Market Overview UK, May 2022, <https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/employmentandemployeetypes/bulletins/uklabourmarket/may2022>

3 See pre-pandemic evaluations of labour market, for instance: Bank of England, Monetary Policy Report – January 2020, 2020, <https://www.bankofengland.co.uk/monetary-policy-report/2020/january-2020/in-focus-the-labour-market>

“The problems in finding skilled staff doesn’t just limit the growth of my business. I’m concerned that without an adequate number of electricians, the Government’s target of net-zero carbon emissions by 2050 will not be achievable.”

Richard Gapper, Bison Electrical Services Ltd, Suffolk

Recruiting those furthest from the labour market

Small businesses provide jobs, skills and training for those furthest from the labour market, including young people, those aged over 50, disabled people and those with mental health conditions, and those with low levels of formal educational attainment. Small businesses play an important role in terms of improving social mobility, and our evidence highlights the disproportionate role small firms play in supporting individuals who are furthest from the labour market.

Figure 1: Proportion of small business employers that currently employ someone furthest from the labour market in England

Source: FSB skills and training survey, 2022

	Percentage
Low levels of educational attainment	23%
Ethnic minorities	19%
Disabled employees	14%
Individuals returning to work after a career break	12%
Long term unemployed	6%
Unpaid carers	5%
Ex-offenders	4%
Care leavers	1%
Don’t know	4%
Prefer not to say	2%
None of the above	33%

Recruitment Challenges

As outlined above, our evidence shows small firms are finding it difficult to recruit staff due to changes in the labour market.

Nearly four in ten small business employers (37%) have a member of staff who is over 65, and 79 per cent have a staff member who is between 50 and 60 years old. Across the UK, 11 per cent of people over 65 are in

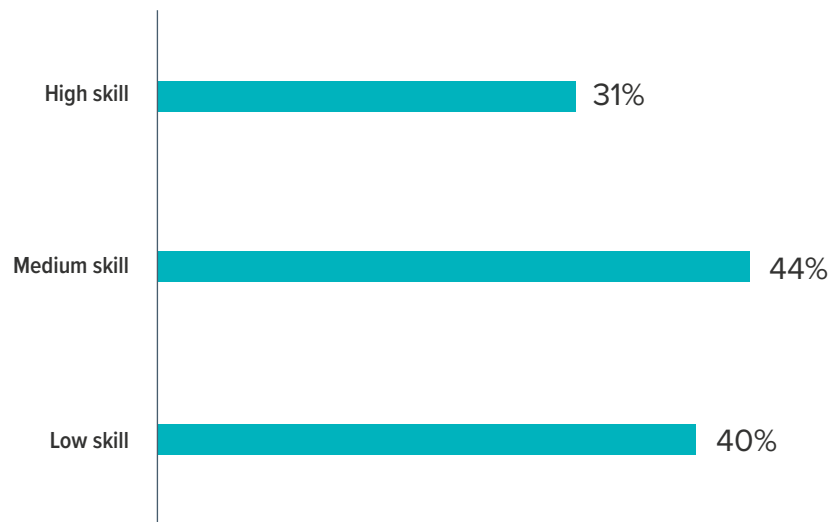
employment.⁴ This could indicate that small businesses are more likely than other employers to hire older workers - and, as a result, they could be feeling the impact of the so-called “Great Retirement” (older workers leaving the workforce at higher rates than before the pandemic) more than other employers.

Our evidence shows the extent to which small businesses are struggling to recruit due to fewer applicants and their inability to find individuals with relevant skills. In brief, small firms are experiencing two related challenges – a skills shortage and a labour shortage. Just under a quarter (23%) of small business employers say they have not needed to recruit in the past 12 months. Of those that have needed to recruit, 78 per cent say they have experienced recruitment difficulties. Small firms in London and the South East (83%) are more likely to report recruitment difficulties.

These difficulties are not limited to a particular skill level but are encountered across all skill levels, with small firms reporting difficulties in filling high, medium, and low-skilled roles.

Figure 2: Proportion of small businesses that have faced difficulties in filling roles by skill level in the last 12 months

Source: FSB skills and training survey, 2022



4 Department for Work and Pensions, Economic labour market status of individuals aged 50 and over, trends over time, September 2021, <https://www.gov.uk/government/statistics/economic-labour-market-status-of-individuals-aged-50-and-over-trends-over-time-september-2021>

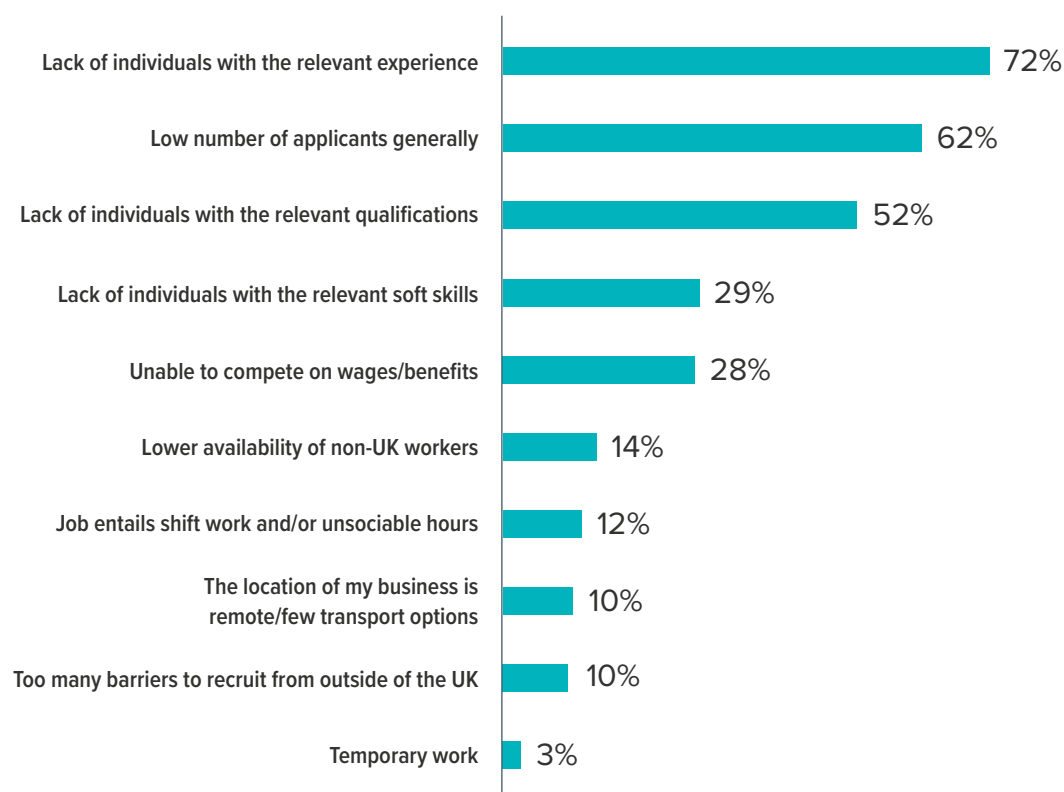
Of those small business employers that have faced difficulties recruiting staff over the last 12 months, 82 per cent say that this is due to a lack of individuals with relevant qualifications, skills and experience. Three in five (60%) of all small business employers struggle to recruit due to a low number of applicants generally.

“I don’t use this term lightly, but I think we’re at a crisis point with skills shortages. For my business, it’s a huge barrier to growth. We’re in high demand and would have taken on four extra apprentices and a project manager if we were able to [the business currently has 10 employees].”

Richard Gapper, Bison Electrical Services Ltd, Suffolk

Figure 3: Small business employers’ explanation for recruitment difficulties in last 12 months

Source: FSB skills and training survey, 2022



Small business response to recruitment challenges

There are broad solutions to addressing labour market shortages, such as increasing wages, investment in training, incentivising participation from inactive groups in the labour market, and recruiting people who are not UK residents.

Our evidence shows that a similar number of firms plan to invest in incentives to retain staff in the next 12 months (20%) as those who had done so over the past three years (21%) (Figure 4).

Figure 4: Steps small business employers have undertaken in the last three years to overcome recruitment difficulties, and steps they plan to take in the next 12 months (England)

Source: FSB skills and training survey, 2022

	Steps taken in the last three years	Planned steps in next 12 months
Increase training for existing staff	32%	27%
Increase salaries	48%	30%
Redefine existing jobs	16%	14%
Increase advertising/spend on recruitment	23%	14%
Use new recruitment channels or methods	28%	19%
Hire contractors or outsource work	27%	19%
Invest in incentives that would encourage my staff to stay with the business	21%	20%
Offer more opportunities to young people (e.g. work experience placements)	18%	16%
Take on an apprentice	21%	16%
Automate roles to reduce the amount of labour required	11%	10%
Sponsor and employ non-UK nationals	2%	4%
Other, please specify	6%	4%
Don't know	0%	4%
Not applicable	11%	5%
None of the above	11%	3%
I don't feel like there's anything I can do	0%	9%
We do not plan to recruit	0%	14%

While a significant proportion of small firms are focused on increasing training for existing staff, this has slightly decreased since 2017. Other

longer-term solutions such as offering more opportunities to young people, taking on an apprentice, automation, and hiring non-UK nationals are less likely to be considered.

Increasing salaries

The most common response over the last three years to recruitment difficulties has been for small business employers to increase salaries (48%). Construction (55%) and wholesale and retail (49%) report the highest percentage of small employers saying they have increased salaries in the last three years. Small business employers in the professional, scientific and technical sector are least likely to increase wages in response to recruitment challenges (40% compared to 48% of all small firms). Small employers in the South West (55%), North West (53%) and Yorkshire and the North East (53%) are more likely to have increased salaries in response to recruitment challenges.

“Job candidates want a very high salary as they know they are in demand with short supply.”

FSB member, Professional, scientific and technical sector, South East

Rises in wages benefit workers, attracting more people to the sector; however, they do not increase output especially where a sector continues to experience shortages. It is interesting to observe the recruitment experiences of these sectors in the last 12 months. For example, 89 per cent of small business employers in construction and 86 per cent in manufacturing say they have struggled to recruit due to a lack of individuals with relevant qualifications, skills and experience.

“For an SME, where’s the ceiling for how far businesses can go to attract people? There’s got to be a point where you just go, I can’t afford to pay the salaries that people now expect if my business is to stay viable.”

FSB member, Education sector, Yorkshire

The response from small businesses to recruitment challenges has primarily focused on short-term solutions such as increasing wages. However, it is difficult for small firms to compete with larger firms when looking for talent. Larger businesses tend to have more brand recognition, higher salaries, and stronger benefits. With tighter budgets and less expertise in recruitment, SMEs can struggle to appeal in a tight labour market.

“I think that small businesses need to look at the wider package as we can’t compete with the big companies on salaries alone. That’s why we’re focused on skills because you can offer a better package and have a better working culture.”

Lee Harris-Hamer, Managing Director of White Horse Cleaning Services, North Yorkshire

“I can’t get anywhere near the salaries offered by larger firms in big cities. But before Covid we did unlimited holidays, we did complete flexible working and now Covid’s hit and everybody’s doing that. Our package, the thing that pulls us ahead and keep people, that’s gone now. So that’s a big issue and we’re back to almost competing purely on salary and there’s very limited things I can add into that package. We’ve just offered health insurance, but for people in the mid-20s, how much of a driver is that? I’m not entirely sure.”

FSB member, Professional, scientific and technical sector, Yorkshire

Of course, there are many reasons why someone would prefer to work at a smaller business than a larger one that go beyond salary and benefits, such as having a close team that are passionate about the mission of the organisation or to have a wider-ranging role. SMEs will need to continue to think creatively about how best to promote these features when recruiting.

Investment in training

Investment in training is the second most common response to recruitment challenges by small firms. A third (32%) say they have increased training of existing staff, with small business employers in construction (41%) more likely to say they have done so than any other sector. Over a quarter (27%) are also planning on increasing their investment in training in the next 12 months. This has remained stable since 2017. In our report, *Learning the Ropes*, almost a third (30%) said that they would increase staff training to address skill shortages.⁵

On the other hand, the proportion of small business owners who see hiring an apprentice as a solution to skills shortages has dramatically decreased in this time period. In 2017, three in ten small business owners (30%) said that they would take on an apprentice to overcome skills shortages. This was the most selected option along with increasing training. Five years later, only 16 per cent of small business employers say they will hire an apprentice in the next 12 months to overcome recruitment difficulties and 21 per cent had done so in the past three years. It is worth reflecting that

⁵ FSB, *Learning the Ropes; Skills and Training in Small Businesses*, 2017, <https://www.fsb.org.uk/resources-page/skills-and-training-report-pdf.html>

2017 was the year of reforms to the apprenticeship system, including the introduction of the Apprenticeship Levy. Our evidence suggests these reforms may have deterred small businesses from seeing apprenticeships as a viable way to tackle recruitment difficulties.

Immigration

Only 2 per cent of small business employers say they have sponsored and employed non-UK nationals in the last three years, and 4 per cent say they plan to in the next 12 months. This is unsurprising considering the impact of the pandemic on business, and the complexity of the immigration system. In 2020, FSB's report *A World of Talent* suggested the challenges for small firms in navigating post-transition immigration rules.⁶ There is a clear need to increase employment in many sectors, if this is to occur there needs to be more flexibility within the sponsorship system and lower costs for small firms to employ non-UK labour.

Of those that have struggled to recruit, 14 per cent of small business employers say this is due to a lower availability of non-UK workers. This increases to 18 per cent for small firms located in London and the South East, and the South West.

Small business employers also responded to recruitment challenges by using new recruitment methods (28%), hiring contractors or outsourcing work (27%), and increased spending on recruitment (23%).

The costs associated with recruitment have increased over the last few years for small businesses, especially for those that wish to recruit staff from overseas in order to tackle shortages.

The Immigration Skills Charge (ISC) is a charge for each migrant worker that a business employs, and must be paid each time a Certificate of Sponsorship (CoS) is assigned to a migrant. The ISC was introduced to help maintain the Department for Education's existing skills budget and existing level of investment in skills in England. Its key focus is to address the skills gap in the workplace. Smaller businesses are required to pay £364 for any period of employment up to 12 months, followed by £182 for each subsequent six month period stated on a CoS.

Our research suggests business visa fees price out small firms from employing non-UK skilled staff, and so it is our view that UK Government should exempt any business that employs fewer than 50 people from having to pay the Immigration Skills Charge.

⁶ FSB, *A World of Talent: Building an Immigration System that works for small businesses*, 2020, <https://www.fsb.org.uk/resource-report/a-world-of-talent.html>

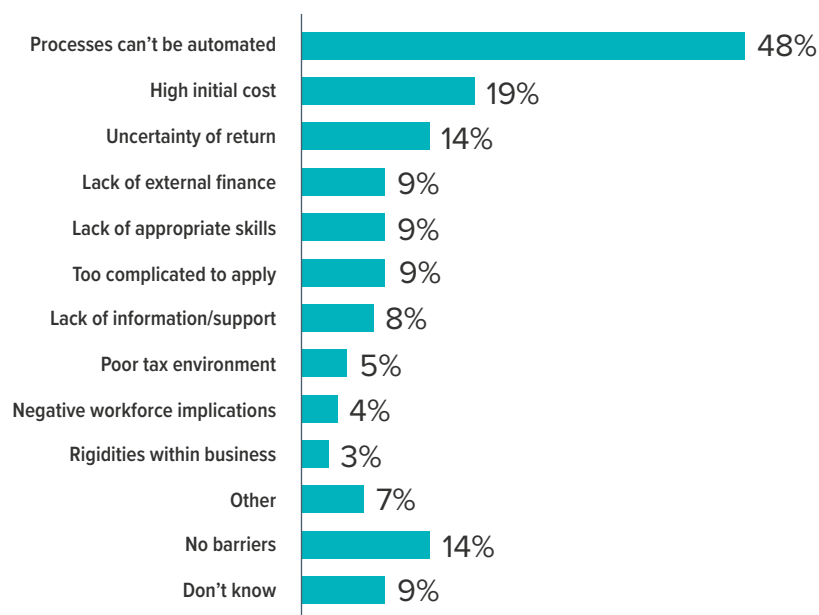
Automation

One potential solution in addressing labour market shortages is to automate processes. The ONS identified that professional occupations are least likely to be automated, while elementary occupations are more likely to be automated.⁷ In order to address recruitment difficulties, one in ten small business employers (10%) are looking to automate roles in the next 12 months.

While automation can certainly assist with solving some recruitment problems, this can only be taken so far. FSB research undertaken in May 2022 found almost half (48%) of small firms were not automating processes as it was not possible to do so (see Figure 5).

Figure 5: Barriers for small businesses in the UK investing in automation

Source: FSB Energy and National Living Wage survey, 2022



For those who are able to automate, there are other barriers to doing so, in particular in relation to finance and a lack of ability to implement, as identified in Figure 5. This varies by sector. In manufacturing, 36 per cent of small businesses say that the high initial cost of automation was a barrier, and 21 per cent cite uncertainty of return. In contrast, for small businesses in the accommodation and food sector, 59 per cent say that processes cannot be automated, which reflects the sector's reliance on labour.

⁷ Office for National Statistics, Which occupations are at highest risk of being automated?, March 2019, <https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/employmentandemployeetypes/articles/whichoccupationsareathighestriskofbeingautomated/2019-03-25>

The 2019 Business, Energy and Industrial Strategy Select Committee inquiry into automation and the future of work found that a *“lack of awareness and understanding of automation is harming business productivity, especially for SMEs.”*⁸ This is also reflected in Figure 5, with several indicators related to this, including that changes were too complicated to apply, and a lack of information and/or support.

“Farmers here in Kent have been struggling to recruit staff for a long time and they’ve turned to automation. I know of one food business which uses automatic tree hoovers to collect apples. Businesses know they can’t rely on employing people, they need to automate and look at AI.”

Paul Andrews, CEO of Jobs in Kent, South East

Jobcentres

Only 5 per cent of all small businesses say they collaborate with Jobcentre Plus to meet their skills needs. This number increases to 8 per cent for small business employers who say they employ someone furthest from the labour market. Certain sectors such as construction (10%) and manufacturing (7%) are more inclined to seek support from the Jobcentre. One in eight small businesses in the South West (12%) say they have collaborated with the Jobcentre to meet their skills needs, in comparison to just 3 per cent of small firms in London and the South East. Increasing this level of engagement is important to move more people from unemployment into work.

In July 2020, the UK Government introduced the Kickstart Scheme. The scheme provided organisations with funding to create new jobs for young people. The scheme was later expanded to include sole traders. There are several barriers to sole traders taking on a permanent member of staff. Some of these are tangible, for instance based on cost factors. The Kickstart Scheme provided many sole traders with the chance to not only help a young person in receipt of Universal Credit, but also to realise opportunities for business growth.

⁸ House of Commons Business, Energy and Industrial Strategy Committee, Automation and the future of work, 2019, <https://publications.parliament.uk/pa/cm201719/cmselect/cmbeis/1093/1093.pdf>

“As a sole trader business owner, I wear many hats, but of course cannot do everything. The Kickstart programme allowed me to expand the team, when the business needed it. The scheme confirmed that SYJTL has the right internal processes in place to successfully recruit, onboard and support up to five members of staff. It has also given us greater insight into the apprenticeships and Apprenticeship Levy transfer scheme for small businesses. We therefore will be revisiting this again in the future to support some of our larger projects.”

Dr Ruth Brown-Shepherd, Business consultant and entrepreneur, SYJTL

Recommendations

The UK Government should:

- **Establish an independent body that looks at the current and future labour market and provides policy recommendations across Government departments. The independent body should develop short, medium and long-term labour market strategies.** This would make the Future Skills Unit independent of the Department for Education and give it the remit to work in close partnership with the Migration Advisory Committee as well as the Low Pay Commission. Co-ordination between different departments in relation to immigration, employment, and education and skills policy is crucial in order to address current and future skills and labour shortages.
- **Introduce a one-year Employer National Insurance Contributions holiday for newly recruited disabled employees, following the successful introduction of a NICs holiday for armed forces veterans, instituted in 2020.** There is a need to incentivise recruitment of disabled people at all stages of their careers, and a need to ensure the viability of those firms that employ large proportions of disabled employees.
- **Introduce a permanent Statutory Sick Pay rebate for SMEs. FSB recommends UK Government provide a full rebate to small firms.** This could be modelled in the same way as the Statutory Maternity Pay Small Employers' Relief (excluding higher earners) to support SMEs to deal with the costs associated with long-term sickness absence. A rebate must accompany any changes to the SSP system that will increase the cost – for example, expanding eligibility to those earning below the Lower Earnings Limit.
- **Enable small businesses to automate processes through providing R&D tax credits to those sectors with difficulties recruiting, and to those with a high initial cost of automating processes.** For example, in manufacturing, the high costs

involved in automating processes is a large barrier for many small businesses. Recruitment pressures could be eased if firms in certain areas were provided with more encouragement and financial support to automate.

The Department for Work and Pensions should:

- **Review the Mid-life MOT to ensure it is easy to use and accessible for small and microbusinesses to help older workers to assess their career and skills needs.** The Mid-life MOT is primarily delivered through technology, and for the MOT to have the greatest impact in small businesses it needs to be implemented alongside digital support for small firms. Consideration could be given to including certain hardware products as well as software within the technology available in Help to Grow: Digital.
- **Introduce a ‘Kickstart’-style Disability Employment scheme to get more disabled people into employment for the first time and implement the Access to Work and Disability Confident recommendations outlined in FSB’s *Business without Barriers* report.**⁹ The gap in employment rates (‘the employment gap’) between disabled and non-disabled people remain significant at 28 per cent.¹⁰ The UK Government has pledged to bring in one million more disabled people into employment by 2027. Our report outlines several ways to narrow this employment gap. This includes the introduction of a ‘Kickstart’-style disability employment scheme to get more disabled people into employment for the first time.

The New Futures Network (NFN) should:

- **Launch a campaign targeted at small businesses in England and Wales to raise awareness of the schemes ability to support employers to recruit ex-offenders. The MoJ and DWP should work together, utilising technology to enable small firms to advertise vacancies, thus assisting regional employment brokers in placing ex-offenders in small firms.** FSB research finds that 4 per cent of small business employers say they employ an ex-offender. Previous FSB research found that small businesses that have recruited an ex-offender were more likely to say they had resolved a skills shortage.¹¹ It is our view that there has never been a more important time for the NFN, yet the NFN remains

9 FSB, *Business without Barriers: Supporting disabled people and those with health conditions in the workforce*, 2022, <https://www.fsb.org.uk/resource-report/business-without-barriers.html>

10 Office for National Statistics, *Outcomes for disabled people in the UK: 2021*, February 2022, <https://www.ons.gov.uk/releases/outcomesfordisabledpeopleintheuk2021>

11 FSB, *Small Business, Big Heart: Bringing communities together*, 2019, <https://www.fsb.org.uk/resource-report/small-business-big-heart-communities-report.html>

unengaged with smaller firms.¹² Excluding small businesses from the ex-offenders' policy agenda is not only an error in the drive to improve social value but also in alleviating skills shortages.

The Home Office should:

- **Extend the Youth Mobility Scheme to EU countries but not include annual quotas.** Agreeing youth mobility schemes as part of our future relationship with the European Economic Area and selected other countries will play an important role in the UK's future immigration system. The scheme allows those aged 18-30 to come to the UK for two years, during which time they can freely work and study if they wish. The expansion of the scheme could be a vital labour source for small businesses in accommodation and food services, and retail. It may also alleviate labour shortages in rural areas such as Cornwall.
- **Exempt any business that employs fewer than 50 people from having to pay the Immigration Skills Charge.** We welcome the goal to implement a single, streamlined, points-based immigration system, but this must be accompanied by a significant reduction in the overall costs for small firms. Until this occurs small firms are effectively priced out of recruiting talented staff.

¹² New Futures Network (NFN), accessed July 2022, <https://newfuturesnetwork.gov.uk/>

EDUCATION AND SKILLS DEVELOPMENT

Strong engagement between employers and education providers enables students to understand the different career options open to them. It also benefits businesses who can have access to a larger pool of talent. Connecting small businesses with those in education is important to achieving the goal set out in the Levelling Up White Paper for *“people to realise their career aspirations without having to leave their communities, and to ensure that local employers have access to the skills they need to grow and thrive.”*¹³

“Being self-employed, it’s very hit and miss when you try and engage with schools. I’m passionate about presenting the opportunities to young people and encouraging them to start their own business.

“However, from the schools I’ve tried to engage with, much depends on the school’s leadership. Some are keen to focus their engagement on larger employers as this is much easier. Others have been great, though. They offered me to speak to an assembly on the opportunities in being self-employed and deliver workshops, which have led to one-to-one support for start-up businesses.”

Jane Walton, Social enterprise, West Yorkshire

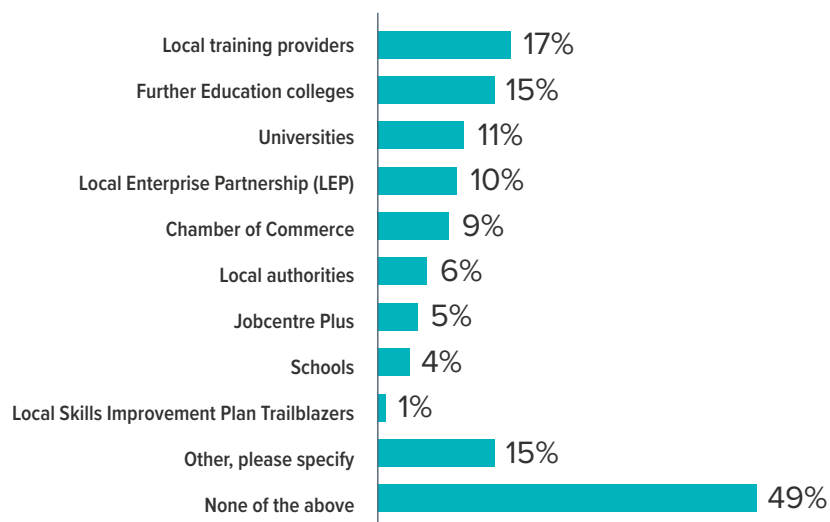
Beyond levelling up ambitions, engaging young people with SMEs is also vital to give young people a more complete picture of their future employment opportunities. SMEs account for three-fifths of private sector employment in the UK.¹⁴

¹³ Department for Levelling Up, Housing and Communities, Levelling Up the United Kingdom, 2022, <https://www.gov.uk/government/publications/levelling-up-the-united-kingdom>

¹⁴ Department for Business, Energy and Industrial Strategy, Business population estimates for the UK and regions 2021, October 2021, <https://www.gov.uk/government/statistics/business-population-estimates-2021/business-population-estimates-for-the-uk-and-regions-2021-statistical-release-html>

Figure 6: Small business engagement with local education and skills organisations in England

Source: FSB skills and training survey, 2022



Education providers

Our research shows there has been a decline in small business and education engagement in recent years, which may partly be due to the impact of the pandemic. Previous FSB research found that one third (33%) of small businesses engaged with schools and/or colleges.¹⁵ This figure had nearly halved to 17 per cent in 2022. To rebuild this engagement, effort is required from both parties to develop their links.

Small businesses that employ people under the age of 20 are more likely to engage with schools (10%), colleges (30%), and local training providers (34%). Encouraging small businesses to engage with local education providers is also necessary step in order to deliver vocational education programmes including apprenticeships and T Levels successfully.

While careers advice has been improving in recent years, including an increased focus on vocational education, there are further strides to be taken. A recent report from the Social Market Foundation (SMF) highlighted some of the problems of careers information, advice and guidance in England.¹⁶ The report outlined the need to encourage schools to prioritise information, advice and guidance to the same extent that they prioritise exam results. The SMF recommended that careers provision should be added to the list of four 'key judgements' on which schools and colleges are rated by Ofsted inspectors.

¹⁵ FSB, Small Business, Big Heart: Bringing communities together, 2019, <https://www.fsb.org.uk/resource-report/small-business-big-heart-communities-report.html>

¹⁶ Social Market Foundation, Fulfilling its potential?: How well does the careers information, advice and guidance serve the people it is meant to support in England?, 2022, <https://www.smf.co.uk/publications/fulfilling-its-potential/>

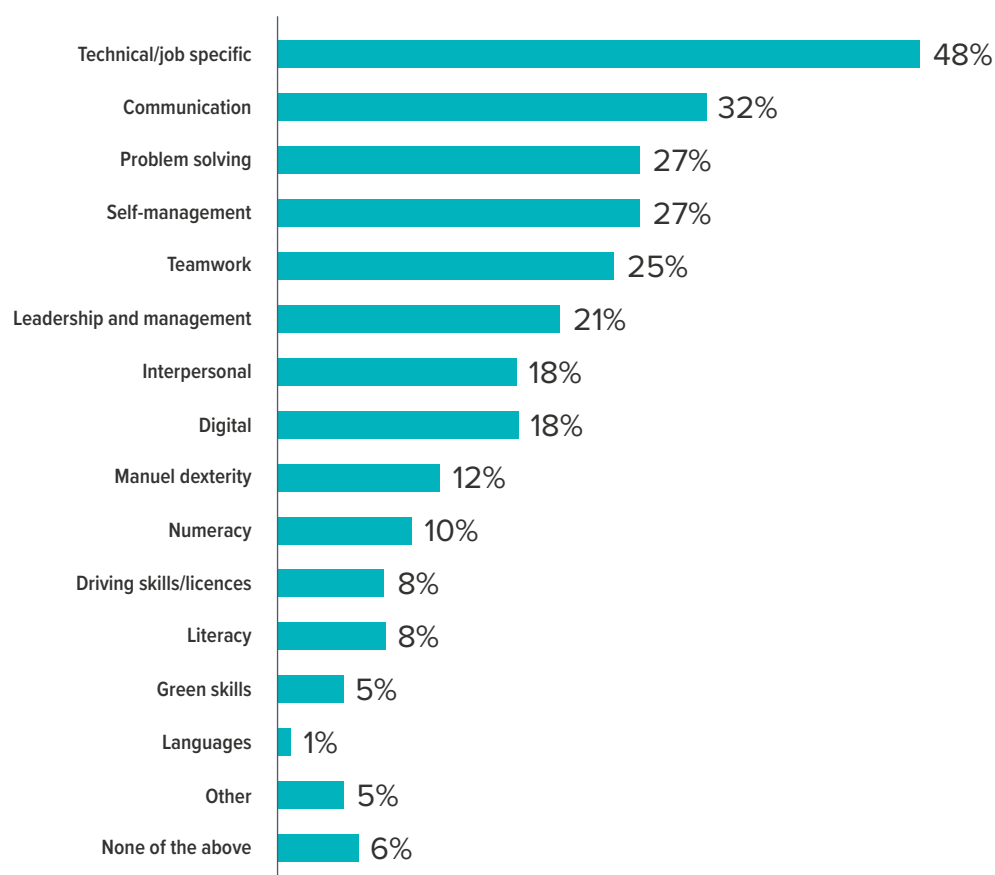
In addition to careers advice being given more priority from education providers, it needs to give equal weighting to different career options. FSB evidence suggests small firms have limited levels of engagement with education providers, whether schools (4%) or further education providers (15%). Changing this level of engagement should be a priority.

Skills for growth

Business owners were asked to rank, in order of importance, the top three skills required for their business's future growth (Figure 7). Nearly half (48%) of small businesses rank technical skills as important to achieving future growth, with 28 per cent saying they are the most important. This is consistent with previous FSB research.¹⁷

Figure 7: Most important skills identified by small businesses for future growth (ranked top three)

Source: FSB skills and training survey, 2022



¹⁷ FSB, Learning the Ropes: Skills and Training in Small Businesses, 2017, <https://www.fsb.org.uk/resources-page/skills-and-training-report-pdf.html>

The skills small businesses require are essentially threefold. There are basic skills in numeracy, literacy and digital. There are ‘softer’ skills such as communication, problem-solving and teamwork that are essential in most people’s careers and lives in general. Then there are job-specific, technical skills that are taught through vocational education. It is our view that the current education and skills system is not adequately delivering on any of these three aspects.

While small businesses value technical skills, a significant number believe ‘soft’ skills are also important for their business. In particular, small firms value communication skills (32%), problem solving (27%), self-management (27%), and teamwork (25%). The focus of the curriculum in recent years and in the Schools White Paper, *Opportunity for All*, is ‘knowledge’.¹⁸ Yet if we want an education system that is focused on business needs, there does need to be at least some recognition of the need to build these skills amongst students.

FSB welcomed the focus in the Levelling Up White Paper on the need to increase the number of people with qualifications in more deprived areas. The White Paper outlined that the more deprived areas tend to have more people without qualifications at Level 3 or below.¹⁹ The target for 80,000 more people completing courses in the lowest skilled geographical areas is welcome, as is the aim set out in the Schools White Paper to have 90 per cent of children leaving primary school having achieved the expected standard in reading, writing and maths by 2030.

Providing an improved education and skills system is central to achieving the goal of levelling up. The Levelling Up White Paper identifies how disparities in educational attainment reflect levels of deprivation across the UK. It goes on to set the following aspiration:

*“The UK Government’s goal is to support a high-wage, high-skill economy by building skills and human capital, particularly in places where they are weakest. This includes supporting people to realise their career aspirations without having to leave their communities, and to ensure that local employers have access to the skills they need to grow and thrive.”*²⁰

Engagement with small businesses through the education and skills system is fundamental to achieving this goal. The purpose of the education system,

18 Department for Education, *Opportunity for all: strong schools with great teachers for your child*, 2022, <https://www.gov.uk/government/publications/opportunity-for-all-strong-schools-with-great-teachers-for-your-child>

19 Department for Levelling Up, Housing and Communities, *Levelling Up the United Kingdom*, 2022, p193, <https://www.gov.uk/government/publications/levelling-up-the-united-kingdom>

20 Department for Levelling Up, Housing and Communities, *Levelling Up the United Kingdom*, 2022, <https://www.gov.uk/government/publications/levelling-up-the-united-kingdom>

at least in part, is to provide people with the skills they need to succeed in their career and provide employers with the skilled staff they require.

The interaction between education providers and businesses is essential. We need to look at the education system holistically and strategically to ensure that we provide everyone with the skills required for a successful career.

CASE STUDY: Estonia

In November 2021, Estonia adopted an Education Strategy up to 2035, which is aligned to the general objectives of the national long-term development plan ‘Estonia 2035’.²¹ This is a comprehensive strategy in all areas of education (i.e. all levels, formal, non-formal, and informal education).

The strategy is the basis of priority-setting and funding decisions. It is implemented through three-year implementation programmes and is monitored based on a set of indicators. The strategy’s overall objective is to equip the Estonian people with the “knowledge, skills and attitudes that prepare people to fulfil their potential in personal, occupational and social life.” This is underpinned by three strategic goals:

1. Learning opportunities are diverse and accessible and the education system enables smooth transitions between levels and types of education.
2. Estonia has competent and motivated teachers and heads of schools, a diverse learning environment and a learner-centred approach to learning and teaching.
3. Learning options are responsive to the development needs of society and the labour market.

The strategy is based on analysis of potential changes to the labour market by 2035 as well as the current strengths and weaknesses of the Estonian education system. By 2035, the education system is expected to support the swift upskilling and reskilling of all age groups and provide education that meets the requirements of the labour market.

The strategy is a follow up to Estonia’s Lifelong Learning Strategy for 2014-2020, which again set targets across the education levels from early-years to adult learning.²² As well as focusing on lifelong learning, the Estonians have prioritised high-quality early years education and e-teaching.

²¹ Republic of Estonia, Ministry of Education and Research, Education Strategy 2021-2035, 2021, Education Strategy up to 2035

²² Republic of Estonia, Ministry of Education and Research, The Estonian Lifelong Learning Strategy 2020, 2014, https://www.hm.ee/sites/default/files/estonian_lifelong_strategy.pdf

Basic and ‘soft’ skills

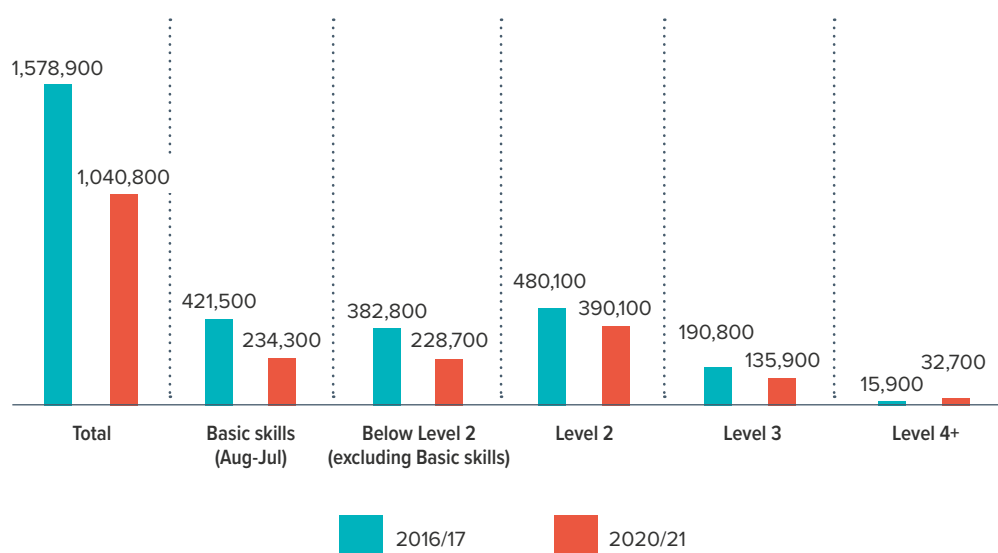
In recent years, fewer people have been leaving compulsory education without the basic skills that are required for most jobs. The number of adults attending courses at Level 3 and below has also dramatically decreased (see Figure 8). Yet these skills are a vital baseline that can either lead to more qualifications or directly to a job. It is also at the lower skill levels that the risk of automation is higher, so retraining is of even more importance.

According to DfE statistics, there are an increasing number of young people leaving school without Level 2 qualifications.²³ For the 2020-21 academic year, 17.1 per cent of 19 year olds were without these qualifications, compared with 12.5 per cent in 2014-15. These statistics also indicate that the numbers achieving Level 3 has flatlined in this period. There has also been a long-term decline in adult (19+) participation in government-funded further education and skills courses.²⁴

As the UK Government looks to the future of adult education policy, businesses’ current and future skills needs should be strongly considered throughout the education and skills system.

Figure 8: Adult (19+) funded further education and skills (including apprenticeships) achievements, 2016-17 and 2020-21

Source: Department for Education, Further education and skills statistics, January 2022



23 Department for Education, Level 2 and 3 attainment age 16 to 25, April 2022, <https://explore-education-statistics.service.gov.uk/find-statistics/level-2-and-3-attainment-by-young-people-aged-19#releaseHeadlines-tables>

24 Department for Education, Further education and skills statistics, March 2022, <https://explore-education-statistics.service.gov.uk/find-statistics/further-education-and-skills/2021-22#dataBlock-b27759ef-eb28-42dd-84b9-4f55e1d9df20-tables>

Recommendations

The Department for Education should:

- **Develop a long-term and holistic education and skills strategy, aligned to overarching economic aspirations and labour market strategy.** This could be based on Estonia's education strategy up to 2035, which is aligned to the country's overarching economic plan. Policymakers need to ensure the education system meets employers' current and future skills needs. As well as long-term targets, there should be series of shorter-term goals to make sure we remain on course to achieving our strategic ambitions.
- **Establish in legislation that by 2035 no young people in England should leave compulsory education without at least Level 2 qualifications.** One in six 19-year-olds (17%) leave compulsory education without Level 2 qualifications, up from one in eight (12.5%) in 2014-15. These qualifications provide people with the basic skills that all jobs require. Additionally, they often serve as a base to go on to further education and can lead to employment opportunities in themselves.
- **Establish in legislation that by 2035 three-quarters (75%) of the working age population (18 to 64 year olds) in England have at least a full Level 3 qualification. At least two-thirds of working age people in every English region should have these qualifications.** Just as achieving Level 2 qualifications is an important first step in building skills, ensuring more people have Level 3 qualifications is crucial in order to deliver a highly skilled economy. These qualifications are an important stepping stone to further educational attainment, and can lead to improved employment opportunities in themselves.²⁵ There is currently an uneven geographical distribution of those who hold qualifications at this level. In the year ending 2021, 62 per cent of the British population had NVQ3 qualifications or above. The figure was 71 per cent in London and 55 per cent in the North East.²⁶
- **Employability skills should be learnt through the curriculum from an early age. Schools should test their students' ability in these competencies, with schools' performance data published by the DfE.** While technical skills remain the top priority for small businesses, 'soft' skills including problem solving, communication, self-management and team-work are very important for employers.

²⁵ Department for Education, Measuring the net present value of further education in England 2018 to 2019, 2021, <https://www.gov.uk/government/publications/measuring-the-net-present-value-of-further-education-in-england-2018-to-2019>

²⁶ ONS, Annual Population Survey January 2021 – December 2021, April 2022, <https://www.nomisweb.co.uk/articles/1294.aspx>

Instead of developing separate qualifications to demonstrate these skills, all qualifications should consider how they build the skills identified in the Skills Builder Universal Framework.²⁷

- **Ensure all schools are able to provide GCSE and A Level computer science or ICT courses.** Currently about 78 per cent of schools in England offer computer science GCSE and even fewer offer it at A Level; this needs to be increased to 100 per cent.²⁸ This will help ensure that all young people have the opportunity to learn the basic digital skills fundamental to the majority of jobs. It will be crucial to look at how to recruit more computing teachers, and how to have a better gender balance among those taking the courses.
- **Reintroduce the principle of compulsory work experience to support young people to have an early, positive introduction to the workplace.** Work experience is incredibly important to give young people an early introduction to the workplace and to develop important soft skills. 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.
- **Ensure that young people have encounters with employers that reflect their local labour market through amending the statutory guidance for careers guidance to explicitly include reference to engaging with a range of employers.** When the Gatsby Benchmarks were first outlined, the value of highlighting a range of different career options was deemed to be of paramount importance. This has led to more pupils being aware of apprenticeship routes. A similar provision should be made so pupils understand the range of employers operating in their local area.
- **Provide funding for Combined Authorities to deliver small business careers fairs directed towards young people considering vocational routes.** Central Government funding should be provided for Combined Authorities to work with the Careers and Enterprise Company to deliver small business careers fairs focused on apprenticeships, T Levels and other vocational routes.

27 Skills Builder Partnership, Skills Builder Universal Framework, accessed July 2022, <http://skillsbuilder.org/framework>

28 BCS; The Chartered Institute for IT, England: Computer Science GCSE, AS, and A Levels, accessed June 2022, <https://www.bcs.org/policy-and-influence/education/bcs-landscape-review-computing-qualifications-in-the-uk/england-computer-science-gcse-as-and-a-levels/>

- **Make careers advice a more prominent feature of Ofsted inspections as one of the ‘key judgements’ areas.** To some extent, Ofsted inspections already cover careers information, advice and guidance. However, to ensure that schools prioritise its provision and to give it more prominence to parents, it should be added to the list of the current four ‘key judgements’. Ofsted inspectors currently grade institutions on a four-point scale in their overall effectiveness as well as their performance in four areas: i) quality of education, ii) behaviour and attitudes; iii) personal development; iv) leadership and management. These ratings appear on the front cover of Ofsted reports. Careers information, advice and guidance provision could be added as a fifth ‘key judgement’ to sit alongside these four, with its own rating.

APPRENTICESHIPS

The apprenticeship system in England has been subject to a wide set of reforms over the past decade, including the introduction of Apprenticeship Standards and the Apprenticeship Levy from April 2017.

The shortcomings of the new system have been widely acknowledged, including by the Gatsby Foundation:

*“The reforms have increased levy-paying employers’ financial investment in apprenticeships but also stimulated their preference to use it to train existing staff at higher levels, sometimes through converting existing training provision to apprenticeships. This may generate higher level skills, but the cost might be a lower number of apprentices, fewer trained by smaller employers, as well as fewer younger and lower-level apprenticeships.”*²⁹

FSB’s 2019 report, *Fit for the Future*, outlined the impact that reforms to the apprenticeship system had for smaller firms. Our research found that 87 per cent of all apprenticeships offered by small firms were at Level 2 ‘Intermediate’ (49%) and Level 3 ‘Advanced’ (38%) in 2019. Additionally, 92 per cent of all apprenticeships offered by small firms were held by 16-24 year olds and 47 per cent by 16 to 18 year olds.³⁰

Declining use of apprenticeships

Currently, 14 per cent of all small businesses say they employ at least one apprentice. In recent years, apprenticeship starts have dramatically fallen for those between 16 and 18 years old and at intermediate level. The starts at intermediate level apprenticeships have declined from 291,330 in 2015-16 to 84,150 in 2020-21, a fall of 71 per cent.

At the same time, the starts at higher level apprenticeships have increased from 27,160 in 2015-16 to 98,810 in 2020-21.³¹ There appears to be a correlation between apprenticeship starts and whether there are enough Apprenticeship Standards in a given sector, which may explain the overall decline in starts in recent years.

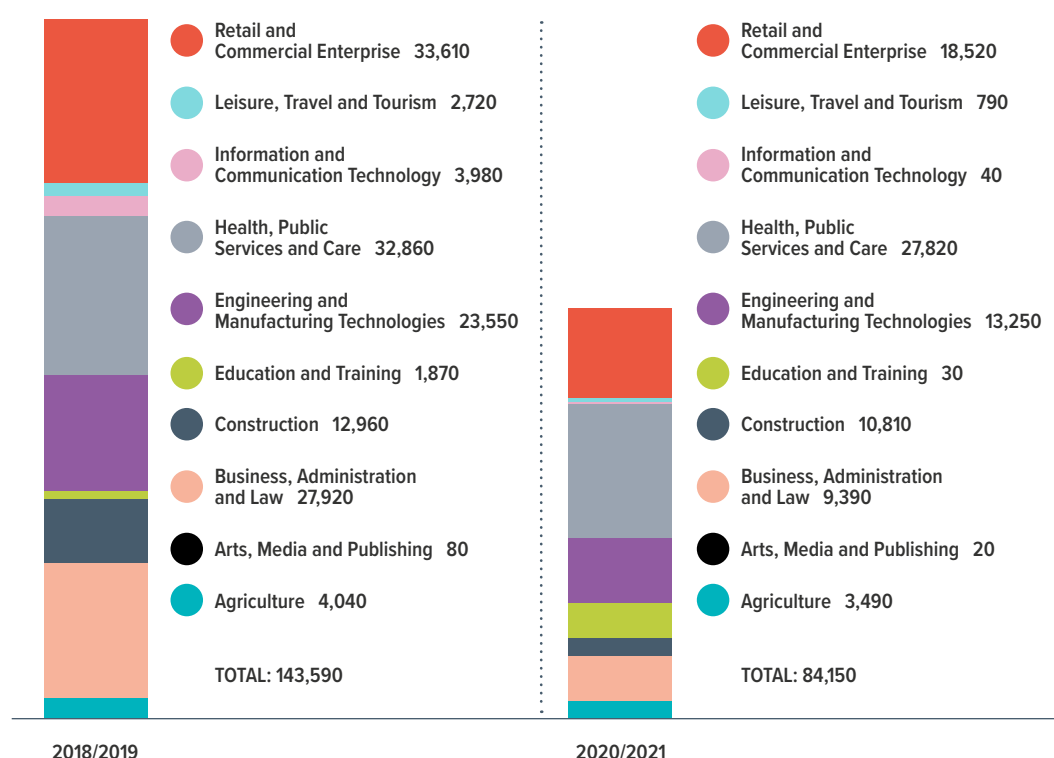
29 The Gatsby Foundation, *The Benefits of Hindsight: Assessing the impact of apprenticeship reforms on employer behaviour*, 2021, <https://www.gatsby.org.uk/education/latest/what-has-been-the-impact-of-apprenticeship-reforms-on-employer-behaviour>

30 FSB, *Fit for the Future: Making the apprenticeship system work for small businesses*, 2019, <https://www.fsb.org.uk/resource-report/fit-for-the-future.html>

31 Department for Education, *Apprenticeships and traineeships*, Academic Year 2020/21, March 2022, <https://explore-education-statistics.service.gov.uk/find-statistics/apprenticeships-and-traineeships/2020-21>

Figure 9: Intermediate level apprenticeship starts by sector, 2018-19 compared to 2020-21

Source: Department for Education, Apprenticeships and traineeships starts, Academic Year 2020/21



As Figure 9 demonstrates, there has been a 41 per cent decrease in the overall number of intermediate apprenticeship starts between 2018-19 and 2020-21. In construction, health, and agriculture, the numbers of starts have only decreased by 17 per cent, 15 per cent and 14 per cent respectively. Meanwhile, starts in intermediate level apprenticeships in Business, Administration and Law have declined by two-thirds (66%) in this time period, while starts in intermediate apprenticeships in Information and Communication Technology have completely collapsed.

The disproportionate level of decreasing starts can be explained by the lack of appropriate Apprenticeship Standards in these areas, which have replaced the previous system of Frameworks. There is only one intermediate Apprenticeship Standard related to business and administration and four related to legal, finance and accounting.³²

³² Institute for Apprenticeships & Technical Education, Search the Apprenticeships, accessed April 2022, <https://www.instituteforapprenticeships.org/apprenticeship-standards/>

In contrast, for higher level apprenticeships, there are 28 approved business and administration Apprenticeship Standards and 22 Standards approved for delivery in legal, finance and accounting apprenticeships.³³ Higher level apprenticeships in business, administration and law made up 47 per cent of higher-level apprenticeship starts in 2020-21 and 14 per cent of all apprenticeship starts.³⁴

Apprenticeship Levy payers have been motivated to engage in the system to create Apprenticeship Standards that suit their purpose – mainly higher-level apprenticeships in business, administration and law. Yet the apprenticeship qualifications that small businesses have until recently used have not been replaced.

There are currently no approved intermediate Apprenticeship Standards in information communication and technology. With very low uptake of those taking Level 2 digital qualifications, there will not be a pathway to Level 3 digital qualifications.

In 2019, the Institute for Apprenticeships and Technical Education (IfATE) published a review of the digital route, which does not make reference to Level 2 qualifications. Perhaps connected to this is IfATE's finding that:

*“The review identified that the interests of small businesses could be better represented in the occupational standards. There is an opportunity for reconvened trailblazer groups to include more small businesses as members or seek their views more actively. This is vitally important in a sector dominated by smaller businesses and there is an opportunity to encourage greater take-up of apprentices.”*³⁵

Most small businesses do not have the time or knowledge to be involved in developing Apprenticeship Standards. Small firms and microbusinesses in particular are unlikely to have HR departments.

As well as a lack of relevant qualifications that small businesses can now use, there are many other problems they face with engaging in the apprenticeship system. FSB's 2019 report, *Fit for the Future*, identified the three biggest challenges for smaller firms when engaging with apprenticeship as being:

33 Institute for Apprenticeships & Technical Education, Search the Apprenticeships, accessed April 2022, <https://www.instituteforapprenticeships.org/apprenticeship-standards/>

34 Department for Education, Apprenticeships and traineeships, Academic Year 2020/21, March 2022, <https://explore-education-statistics.service.gov.uk/find-statistics/apprenticeships-and-traineeships/2020-21>

35 Institute for Apprenticeships & Technical Education, Digital Route Review: Review Report, 2019, <https://www.instituteforapprenticeships.org/reviews-and-consultations/route-reviews/digital-route-review-review-report/>

1. Recruiting an apprentice
2. Management time
3. 20 per cent off the job training.³⁶

“The issue with apprenticeships is that they take a lot of time and a lot of training. They require a large amount of manpower and the experience to be able to deliver successfully. Due to the ‘Great Retirement’, we’re losing those workers who’d normally be handing on their knowledge and knowhow to apprentices, compounding the problem.”

Lee Harris-Hamer, Managing Director of White Horse Cleaning Services, North Yorkshire

Our 2019 research found that almost half (48%) of small business owners said they wanted control over the recruitment and administration process. Two-fifths (41%) of small businesses that employed apprentices reported that their costs related to recruiting and training apprentices had increased. Locating a suitable training provider was also highlighted as difficult. Strong communication between training provider and employer was identified as central to a successful apprenticeship. These challenges have broadly remained the same despite efforts to overcome them.

“The only route to becoming an installation electrician is an apprenticeship. Yet there are real difficulties finding the training providers. Several of our apprentices don’t drive and are expected to now travel three hours a day to a college to receive training.”

Richard Gapper, Bison Electrical Services Ltd, Suffolk

“I’ve looked at getting an apprentice before now; the first issue is that we’re doing something really niche and really techy and there’s no training providers set up to do that.

“I’ve done a calculation of what it would cost us to take on an apprentice. My machine setup is at least £2,000 and preparing the desk and chair is £250. Their salary when they’re not in the business and doing their own training and my staff time to train them is around £8,000. That’s a total of £10,250. This is not including their salary and National Insurance, my staff employer’s NI and pension contribution, or missed opportunity cost for my current staff.”

Richard Askew, Managing Director of Askew Brook, Yorkshire

³⁶ FSB, Fit for the Future: Making the apprenticeship system work for small businesses, 2019, <https://www.fsb.org.uk/resource-report/fit-for-the-future.html>

Incentivising apprenticeships

Small firms have welcomed UK Government interventions on co-investment and transfer of unspent levy funding to non-levy paying firms, as well as recent measures to add flexibility to the amount of off-the-job training required.

During the pandemic, the UK Government introduced a £3,000 incentive for employers who hire an apprentice. According to the DfE's statistics on apprenticeship starts for August 2021 to January 2022, when the £3,000 incentive ended, it had a positive impact on the number of starts.³⁷ Apprenticeship starts are almost back to pre-pandemic levels (214,200 in August 2018 to January 2019, and 204,000 in August 2021 to January 2022). This DfE data also found that there were 78,700 claims for the financial incentives between August 2021 and January 2022 for apprenticeship starts, compared to 54,700 for the same period in 2020-21. These trends seem to be related.

Our 2022 research shows that just under two fifths (39%) of small business employers are aware of this incentive and 14 per cent had used it. Those who employ people under the age of 20 (32%), those with low levels of educational attainment (17%) and those returning to work (17%) are more likely to have used the financial incentives to hire apprentices.

There is also currently a £1,000 incentive for employers hiring apprentices who are between 16 and 18 years old, or under 25 with an education, health and care plan, or who have been in the care of their local authority. Previous FSB research found only 40 per cent of eligible small businesses have received the £1,000 incentive for hiring 16 to 18-year-olds.³⁸ A third (34%) say they are not even aware of the incentive due to limited promotion.

Small business employers were asked whether maintaining the £3,000 incentive to hire an apprentice over the next 12 months would lead to them hiring additional apprentices in the next year; a fifth (21%) say that it would. Four per cent of all small business employers say that they would hire several additional apprentices. A third (32%) say they would consider hiring additional apprentices to their current plans, while 38 per cent say it would make no difference to current plans.

For context, there are an estimated 1.4 million small business employers in England,³⁹ and 21 per cent of that figure is roughly 294,000 firms.

37 Department for Education, Apprenticeships and traineeships statistics for Academic Year 2021/22, March 2022, <https://explore-education-statistics.service.gov.uk/find-statistics/apprenticeships-and-traineeships>

38 FSB, Fit for the Future: Making the apprenticeship system work for small businesses, 2019, <https://www.fsb.org.uk/resource-report/fit-for-the-future.html>

39 Department for Business, Energy & Industrial Strategy, Business Population Estimates 2021, October 2021, <https://www.gov.uk/government/statistics/business-population-estimates-2021>

Maintaining financial incentives would clearly have a huge impact on the number of additional apprentices small businesses hire.

It would have a particular impact in the construction and information and communication sectors, where 30 per cent and 29 per cent of small business employers respectively say that they would hire additional apprentices. Of those who said that they faced recruitment difficulties over the past year, 28 per cent say that maintaining the £3,000 incentive would lead to them hiring more apprentices.

Apprenticeship levy payers are currently able to transfer up to 25 per cent of their levy funds to another business. This has meant that larger businesses can financially support the SMEs in their supply chain, sector, or region in hosting an apprentice. This has helped SMEs to hire apprentices, especially when an intermediary organisation supports the process.

A recent survey of HR professionals found that two in five (41%) thought an increase in the percentage of levy that could be transferred to the supply chain would incentivise them to do so.⁴⁰ In a subsequent question on the barriers to transferring levy funds, the complexity of doing so was the most common problem, both for the firm doing the transfer (28%), and for the small business receiving the funds (27%). A quarter (26%) said that the inflexibility of the existing rules prevents SMEs in the supply chain from taking up the funding on offer.

The West Midlands Combined Authority and the Greater Manchester Combined Authority recently piloted a brokering service to support levy transfers. In the West Midlands, a total of £32.7m was transferred via the scheme, with 725 SMEs benefiting and over 2,280 people obtaining an apprenticeship.⁴¹ This approach has appeared to be successful in breaking down some of the complexities for businesses in the transfer system and could therefore be expanded.

Refocusing the financial incentives and boosting levy transfers would clearly lead to more small businesses hiring apprentices at a younger age and at lower qualification levels. However, these measures, by themselves, would not solve the issues faced by small businesses in accessing apprenticeships. The challenges related to navigating a complicated skills landscape remain. More can be done to simplify the system and assist small business owners interested in hiring an apprentice.

40 BusinessLDN, Apprenticeship funds still going unspent despite urgent upskilling needs, survey finds, January 2022, <https://www.businessldn.co.uk/news-publications/news/apprenticeship-funds-still-going-unspent-despite-urgent-upskilling-needs>

41 West Midlands Combined Authority, Innovative WMCA Apprenticeship Levy Fund tops £32m helping more than 2,280 people into training, February 2022, <https://www.wmca.org.uk/news/innovative-wmca-apprenticeship-levy-fund-tops-32m-helping-more-than-2-280-people-into-training/>

CASE STUDY: Spain

Two NGOs (Fundación Bertelsmann and the JP Morgan Chase Foundation) collaborated to provide free technical support to SMEs interested in developing an apprenticeship programme.

The pilot initiative had a consulting team working with 190 SMEs to advise them through the process of creating apprenticeship places, including positions within the company that could be filled by apprentices, and matching available vocational education and training qualifications with firms' skills needs. The OECD highlights that a central part of the success of this scheme was the involvement of intermediaries, including employer and sectoral groups who helped to identify training needs.⁴²

Fundación Bertelsmann also developed a manual for tutors of apprentices, which provides tutors with basic tools: how to plan training, select an apprentice, transmit information, supervise, and evaluate performance.

Of the 190 firms that engaged in the programme, 115 expected to offer at least one apprenticeship position during 2016/17 and 2017/18, suggesting that technical support can help SMEs to overcome non-financial barriers in providing apprenticeships.

The direction of travel in recent years with the apprenticeship system has not worked for small businesses. Apprenticeships must primarily be seen as a way to deliver vocational training for younger people. This is important for small businesses and for the UK Government's levelling up ambitions. Encouraging in-work training for older people is also vitally important, but apprenticeships by their nature are not necessarily always the best vehicle to deliver this.

42 OECD, Getting Skills Right: Good Practice in Adapting to Changing Skill Needs, 2017, <https://www.oecd.org/els/getting-skills-right-good-practice-in-adapting-to-changing-skill-needs-9789264277892-en.htm>

Recommendations

HM Treasury and HM Revenue and Customs should:

- **Maintain the Apprenticeship Levy, as this funding is needed for SMEs. The UK Government must continue to contribute 95 per cent of the training costs for small businesses.** Currently, training for apprentices is funded through a levy on large firms, with any underspend going to SMEs. The underspend is currently a large amount due to the pandemic leading to limited apprenticeship starts, but as start numbers increase post-pandemic, adequate funding for apprenticeship training will be required.
- **Refocus the current financial incentive of £1,000 for employers hiring an apprentice under 19 years old to a £3,000 incentive for those hiring an apprentice under 25 years old. Additionally, the financial incentive could be exclusive for SMEs.** Instead of the financial incentive going directly to the training provider, the payment should be made directly to the small business hiring an apprentice through its digital Apprenticeship Service account. Our evidence shows that a £3,000 financial incentive would have a large impact on SMEs hiring more apprentices than they are currently planning.
- **Remove the 25 per cent cap on Apprenticeship Levy transfers so levy payers can transfer as much as they like to small businesses.** Currently, Apprenticeship Levy payers can transfer up to 25 per cent of unused funds to other businesses to enable them to hire apprentices. This has led to more small businesses hiring apprentices; expanding this so that levy payers can transfer up to 100 per cent of their funds would lead to even more.
- **Expand the regional levy transfer pilots to give combined authorities more responsibility to support small businesses taking on apprentices.** In pilots in the West Midlands and Greater Manchester Combined Authorities, Apprenticeship Levy-paying firms were able to transfer up to 25 per cent of their levy payment to smaller firms in the region via the combined authority. Combined authorities should also continue to provide information, advice and guidance to small businesses considering taking on an apprentice.
- **Maintain Child Benefit for when under-20s take an apprenticeship.** Child Benefit is maintained for when under-20s undertake Further Education courses as well as A Levels, but not when they take up an apprenticeship. This is a barrier to encouraging low-income families to see an apprenticeship as financially viable for their children, especially in a tight labour market when they could go straight into employment.

- **Maintain the abolition of employer National Insurance Contributions for apprentices aged under 25.** A review of the relief found that smaller businesses claimed the relief for a larger proportion of their employees, and that 42 per cent of microbusinesses saw the relief as ‘significant’ compared to 13 per cent of large companies.⁴³ This form of tax relief is most beneficial to the smallest companies, who require the most support when hiring apprentices.

The Department for Education (and the Education and Skills Funding Agency) should:

- **Review and improve the usability of the digital Apprenticeship Service accounts.** It is welcome that small businesses are able to use the Apprenticeship Service, as is the development of a ‘matching service’ for passing on levy funds, something that FSB previously called for. However, usability issues with the digital Apprenticeship Service have put many small employers off creating an account.

Institute for Apprenticeships and Technical Education (IfATE) should:

- **Fast-track intermediate Apprenticeship Standards in sectors that were until recently regularly used – namely in digital, and business and administration.** This process should involve education providers and consult businesses of all sizes. IfATE should review all areas of significant decrease of uptake in apprenticeships where Standards have recently replaced Frameworks, and ensure that there are relevant apprenticeship qualifications in place. FSB expressed concern about the lack of suitable replacements for Frameworks for SMEs in 2019.⁴⁴ The large decrease in starts at intermediate level is at least partly due to the limited number of suitable qualifications for small businesses.
- **Ensure that Apprenticeship Standards work for SMEs by boosting engagement beyond trailblazer groups, through an annual survey and a review of occupation maps.** This should include an annual small business apprenticeship insights survey, the findings of which would be used to identify gaps in the standards that need to be addressed (e.g. the digital gap at L2). As with the digital route review, IfATE should review all sector routes, ensuring that SMEs are involved and any gaps are identified.

43 HMRC, Employer National Insurance contributions (NICs) reliefs for apprentices under 25 and employees under 21, 2018, <https://www.gov.uk/government/publications/employer-national-insurance-contributions-reliefs-for-apprentices-under-25-and-employees-under-21>

44 FSB, Fit for the Future: Making the apprenticeship system work for small businesses, 2019, <https://www.fsb.org.uk/resource-report/fit-for-the-future.html>

The Department for Transport should:

- **Introduce a bus pass scheme for all apprentices under 25, enabling them to travel for free.** There are significant difficulties for apprentices who do not drive in accessing their courses, especially in more rural areas. Several FSB members identified this as an issue. Some councils do offer apprentices discounts on transport, but others offer discounts to those aged up to 18, and those in full time education, not covering apprenticeships. This could be based on current free bus passes for older people, which are subsidised by the UK Government.

T LEVELS

Launched in September 2020, T Levels are an alternative to A Levels and other Level 3 qualifications.⁴⁵ T Levels focus on vocational skills and can help students into skilled employment, higher study, or apprenticeships. T Levels offer students a mixture of classroom learning and ‘on-the-job’ experience during an industry placement of at least 315 hours (approximately 45 days).

FSB welcomes the Department for Education’s focus on the implementation of T Levels to improve the quality and rigour of technical education, and to support entry to skilled employment in technical occupations – jobs that small businesses in the UK are struggling to fill. However, the overall success of T Levels is largely dependent on how effectively small businesses engage with the programme, their demand for individuals that have completed it, and their engagement with the delivery of essential components of the programme.

In May 2019, the Department for Education announced some flexibilities and employer support on T Levels. A minimum 45-day industry placement was replaced with a 315-hour placement, and placements at two different employers were made possible. Due to the difficulties in the provision of industry placements, the Government introduced £1,000 incentive payments for employers who hosted T Level placements between 27 May 2021 and 31 July 2022.

Our research suggests that maintaining this financial incentive would create more T Level industry placements. Six per cent of small business employers are currently planning to host a T Level placement, while 22 per cent say that governmental financial support would encourage them to host a placement or host more than they currently have planned. Only 10 per cent of small business employers say they are aware of the T Level financial incentive, which could perhaps be partly because the T Level programme has not yet been fully rolled out.

FSB focus groups found that while small businesses have heard of T Levels before, they have relatively little knowledge of these qualifications. Few were aware that the timing with the placement structure could be carried out in a flexible manner. The perceived lack of flexibility and the amount of administration involved with hosting were seen as large barriers. Several small business owners are also confused about where T Levels fit into the general education and skills landscape and what they are meant to lead to.

T Level incentives seem to have had more of an impact in sectors where T Levels have already been rolled out. Just over a third (34%) of small business employers in the information and communication sector say that governmental financial support would encourage them to host a placement or host more than they currently have planned.

45 HM Government, T Levels homepage, accessed August 2022, <https://www.tlevels.gov.uk/>

More than a quarter (27%) of those in construction say that governmental financial support would encourage them to host a placement or host more than they currently have planned. In manufacturing, a sector where T Levels start in September 2022, 24 per cent say that governmental financial support would encourage them to host a placement or host more than they currently have planned.

Small businesses are passionate about vocational education. The successful rollout of T Levels depends on the inclusion of small firms. For this to happen, industrial placements must work for small businesses and they need to be incentivised to host them.

Recommendations

HM Treasury and HM Revenue and Customs should:

- **Reintroduce the £1,000 incentive for employers hosting T Level industry placements.** This was meant to be a temporary incentive during the pandemic, but our evidence demonstrates that this would be the most effective way of increasing the number of small businesses hosting placements.

The Department for Education should:

- **Maintain the flexibilities introduced during the pandemic with hosting T Level placements, including the ability to host at least a portion of the placement virtually.** The temporary relaxation of allowing virtual placements during the pandemic should in some form remain to reflect working conditions for many employers. For many professions, working virtually looks likely to remain in place. To best prepare T Level students for the world of work, it is essential that they gain experience of what this actually entails.
- **Increase the flexibilities on offer in hosting a T Level placement, including multiple employers and building in other employment-related experience.** Currently for T Levels in construction, engineering and manufacturing, one lead employer can facilitate an industry placement through its supply chain or network. This could be expanded to all sectors so that a lead employer could facilitate placements at several relevant organisations.
- **Implement a communication campaign to ensure high levels of awareness amongst employers, and also ensuring they understand the flexibilities already in place regarding hosting a placement.** Knowledge of T Levels is often superficial amongst small businesses. As it is a new qualification, this is to be expected, but a communication campaign to promote T Levels must continue to be in place for several years. Ensuring strong understanding of how a successful industrial placement could work is also fundamental.

- **Increase clarity on how T Levels fit within the broader qualification landscape.** This should include a series of small measures to improve clarity of the broad qualification pathways. For example, on the T Level website it states what occupations the T Level could lead to, as well as noting that “*students can also use this T Level to do a related higher-level apprenticeship or degree course.*”⁴⁶ However, the relevant courses are not listed, and no link is provided to the IfATE website. The Department for Education has published a list of higher education providers that have confirmed that they will consider T Levels for entry onto at least one course at their institution, yet it does not state which courses accept T Levels.⁴⁷

⁴⁶ HM Government, T Levels Education and Childcare subject page, accessed August 2022, <https://www.tlevels.gov.uk/students/subjects/education>

⁴⁷ Education and Skills Funding Agency, Providers that have confirmed T Levels suitable for entry on one course, July 2022, <https://www.gov.uk/government/publications/t-level-resources-for-universities/providers-that-have-confirmed-t-levels-suitable-for-entry-on-one-course>

TRAINING IN SMALL BUSINESSES

The provision of in-work training benefits businesses through boosting their own innovation, productivity and growth. It is also important for individuals looking to upskill and to achieve in-work career progression. Additionally, there is a general agreement that increasing automation of different roles will require more people to retrain throughout their lives. The Organisation for Economic Co-operation and Development found that the UK is already facing a large skills mismatch, with 40 per cent of British workers employed in an occupation for which they did not have the correct qualification, a higher rate than the majority of countries in the EU.⁴⁸ Lifelong learning is therefore essential to overcome these challenges.

Overall, 83 per cent of small business employers say they have provided training for their staff and/or themselves over the past 12 months. This is an increase from 2017 when we found that three-quarters of small businesses (76%) provided training for their staff in the last year.⁴⁹

Our research shows there has been an increase in the past five years to the average number of days of training provided. For those who provide training in 2022, the average amount of days of training and development for each staff member is seven days of training. In 2017, the equivalent number was 6.7 days per staff member.

While the amount of training provided by small business employers has increased, the number of adults participating in Government-funded further education and skills courses has seen a long-term decline. In 2005-06, 3,996,000 adults participated in these courses, while in 2020-21, 1,640,300 participated.⁵⁰ The Adult Education Budget fell by 45% in real terms between 2010 and 2018, with this reduction making it more difficult for small businesses to find relevant and affordable training opportunities locally.⁵¹

Spending on the Adult Education Budget, including on apprenticeships, was increased at the 2021 Spending Review. However, as the Institute for Fiscal Studies points out:

“Spending on adult education and apprenticeships will rise by 30% between 2019-20 and 2024–25. However, as with spending on 16–18 education, this only reverses a fraction of past cuts; combined spending on adult education and apprenticeships will still be 15% below 2009–10 levels.”

48 OECD, Getting Skills Right: United Kingdom, 2017, https://www.oecd-ilibrary.org/employment/getting-skills-right-united-kingdom_9789264280489-en

49 FSB, Learning the Ropes: Skills and Training in Small Business, 2017, <https://www.fsb.org.uk/resources-page/skills-and-training-report-pdf.html>

50 Department for Education, Further Education and Skills, Academic Year 2021/22, March 2022, <https://explore-education-statistics.service.gov.uk/find-statistics/further-education-and-skills>

51 House of Commons Education Select Committee, A plan for an adult skills and lifelong learning revolution, 2020, <https://explore-education-statistics.service.gov.uk/find-statistics/further-education-and-skills>

“Spending on adult education on its own (i.e. excluding growing levels of spending on apprenticeships) fell by 49% between 2009–10 and 2019–20, and will still be 33% below 2009–10 levels even with the additional funding announced in the 2021 Spending Review.”⁵²

However, employers can always invest more in training and improve their focus on providing the right type of training to the people who could benefit most.

“We’ve got two choices. We either invest in training for the next generation, or we lose substantially. The substantial loss will make us the poor partners in a global economy.”

Hugh McPhillips, Managing Director of Generic Education Training Services Limited, South West

Type of training provided

When asked the types of training provided to staff over the past 12 months, three-quarters (74%) say they have offered training directly related to the employee’s role in their business. As small businesses see these skills as most important for their growth (see Figure 7), it is logical that this is the training they are most likely to provide.

Small business employers are less likely to provide training that might be more indirectly linked to an employee’s role, but nonetheless be important for the individual’s development and career prospects as well as the business’s growth. In the past 12 months:

- 32 per cent of small business employers have provided training in a key business activity (e.g. marketing)
- 28 per cent of small business employers have provided personal development training
- 26 per cent of small business employers have provided leadership and/or management training
- 25 per cent of small business employers have provided training in digital skills
- 8 per cent of small business employers have provided training in green skills.

Digital skills are essential for working life. Our evidence shows a disparity between employees who are graduates and employees with low levels of educational attainment in terms of digital skills training provision.

Basic digital skills are essential for nearly all careers and advanced digital

⁵² Institute for Fiscal Studies, 2021 annual report on education spending in England, 2021, <https://ifs.org.uk/publications/15858>

skills are becoming increasingly important to the UK economy. FSB research found that three in ten (30%) of small business employers who employ graduates provide digital skills training, compared to one in five (21%) of those who employ individuals with low levels of qualifications.

Our evidence shows that those without intermediate or higher-level qualifications are least likely to be trained in these skills at work. This is further compounded by the fact that the number of GCSE entries in computing or information and communication technology (ICT) declined by 40 per cent across the UK between 2015 and 2020, especially amongst female students.⁵³ There needs to be a significant change in digital skills policy to reverse this trend.

There is an opportunity for UK Government to clarify and improve the tax reliefs that are available for training at work, in order to incentivise more employer-funded training. There is also a need to focus incentives for employers to train staff who have lower levels of qualifications and less experience, those in roles more likely to be automated, and part time workers who often work in low paying sectors.

Support for training needs

Training plans and budgets can help small firms to anticipate and meet their training needs. However, most small businesses do not have these in place. Only 17 per cent of small business employers have a training budget; 21 per cent have a relationship with a training provider, and 31 per cent have a training plan for the year ahead, while 19 per cent have a longer-term training plan. Almost half (47%) have none of these.

About half of small business employers (51%) indicate that a training plan is not necessary for their business. They report that either it is not a business priority (29%), or that their focus is on immediate recruitment needs (25%), with some overlap between the two. For the rest, the top reasons are that they are unclear of their future training needs (31%), it takes too much time (23%), or it is too expensive (18%). Only five per cent say it is too difficult to carry out.

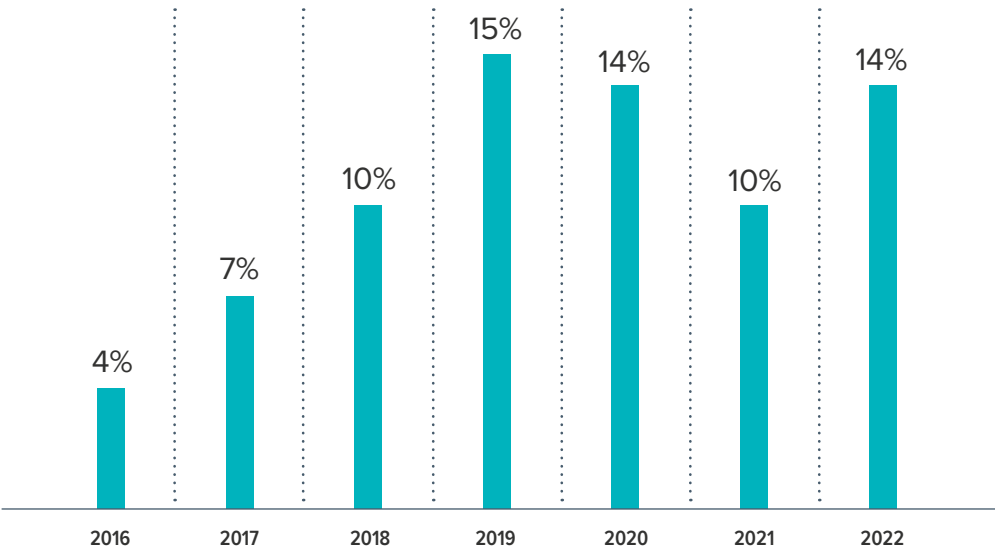
FSB's annual research on the National Living Wage (NLW) presents useful data on the impact of the NLW on training investment. FSB evidence shows that since the introduction of the NLW in 2016, small businesses have responded to wage increases by cutting back on training (Figure 10). In 2021, the NLW increased by 2.2 per cent, a smaller degree than predicted in response to the pandemic; concurrently, fewer smaller businesses said they cut back on training in comparison to the two previous years.

⁵³ WorldSkillsUK, Learning and Work Institute, and Enginuity, *Disconnected?: Exploring the digital skills gap, 2021*, <https://learningandwork.org.uk/wp-content/uploads/2021/03/Disconnected-Report.pdf>

FSB continues to support rises in the NLW, but NLW rises alongside cuts to the adult training budget will undoubtedly have a negative impact on the training provision for the lowest-paid. With other pressures facing businesses at the moment, including increased taxation, inflation, and energy prices, training budgets look likely to be further cut. Enabling businesses to invest more in training, especially for those at the lower end of the labour market, should be a priority for policymakers.

Figure 10: Small business employers cutting back on training expenditure as a response to managing additional wage costs, 2016-2022

Source: FSB NLW surveys 2016-2022 (surveys undertaken in May/June each year)

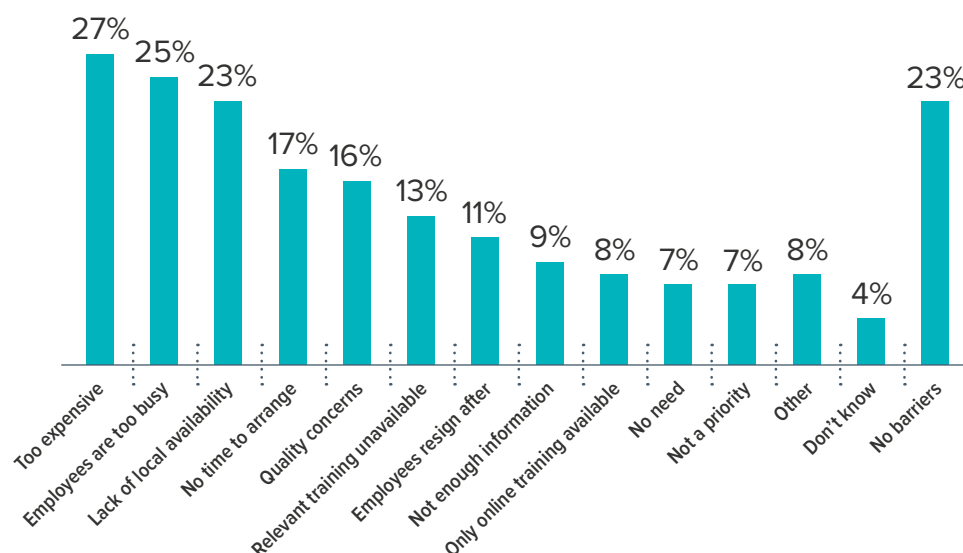


Barriers and incentives to training

Beyond barriers related to capacity and cost, the other top barriers to training expansion include a lack of available courses and the perceived quality of courses.

Figure 11: Main barriers to training for business owners and/or their employees

Source: FSB skills and training survey, 2022



Compared to five years ago, more small business owners identified the lack of relevant training available locally (16% in 2017 compared with 23% in 2022) as a top barrier. They are also more likely to identify their own capacity to arrange training as being an issue. This was the fourth top barrier identified, with 17 per cent saying this is a main barrier. In 2017, only six per cent said that they had no time to organise.

Small business owners also seem very open to online training; only eight per cent identified training being only conducted online as a major barrier. This could perhaps be partly due to the impact of the pandemic, with the growth in home working leading to a greater demand for online training.

Of those small business employers that say an incentive would encourage them to undertake more training, more government assistance with costs (64%) and more tax relief incentives (48%) are the top two factors. However, measures beyond support on cost which would make a difference to employers were cited. Over a third (37%) of small business employers would like to see improved information, advice and guidance on the training support available, and 37 per cent say they want more flexible training opportunities. Meanwhile, 25 per cent said that improved course quality would incentivise their business to undertake more training.

As with larger businesses supporting smaller firms in apprenticeship provision, large companies could also consider supporting smaller firms

in their supply chain with training. In previous FSB research, we found that 55 per cent of small suppliers who accepted offers of skills and workforce development support from their customers said it improved staff's skills, knowledge and expertise.⁵⁴ Yet an overwhelming majority (88 per cent) of FSB smaller suppliers had not received any of this type of support from their customers.

Leadership and management skills

A quarter (26%) of small business employers say leadership and management skills are the most important skills required for future growth, and 26 per cent say they have undertaken leadership and management training over the last 12 months. These skills are fundamental for boosting productivity. Previous FSB research found that the top three barriers to further innovation were all related to 'management or leadership' related functions.⁵⁵

Small businesses with more employees are more likely to have taken leadership and management training in the past 12 months. Two in five businesses (41%) with between 10 and 49 employees had taken this type of training, compared to 21 per cent of those with between one and nine employees and 23 per cent of self-employed people. The smallest firms have been less able to take these courses and yet find themselves unable to access the UK Government's Help to Grow: Management scheme.

The Help to Grow: Management scheme, introduced last year, is available for businesses with between five and 249 employees. Our research shows that only one in fifty (2%) of survey respondents have used the scheme, and only 14 per cent are even aware of it. Uptake among those with between 10 and 49 employees is at 5 per cent, and for those with between one and nine employees it is 2 per cent (not all will be eligible). For microbusiness owners, who tend to be highly time-poor, it might be that the scheme is too much of a time commitment and a more flexible alternative could be the way forward.

Self-employed training

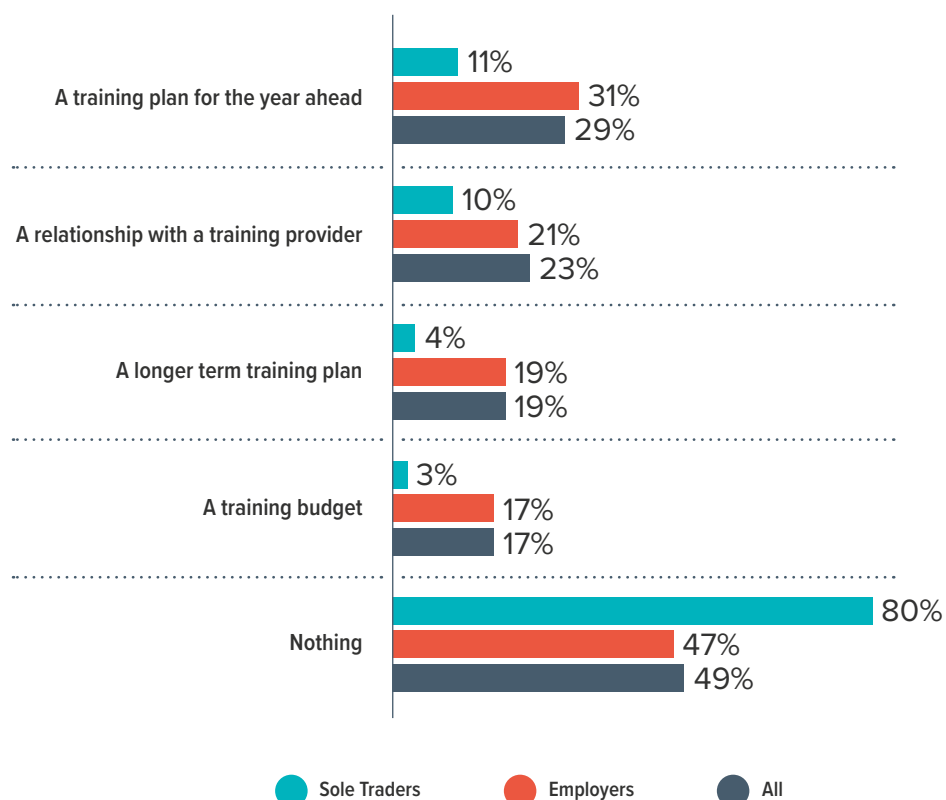
Two in five sole traders (40%) have not undertaken any training or development over the past 12 months. Sole traders are more likely to have no support mechanism in place for their training needs in comparison to employers (see Figure 12).

54 FSB, Chain Reaction: Improving the supply chain experience for small firms, 2022, <https://www.fsb.org.uk/resource-report/chain-reaction-improving-the-supply-chain-experience-for-small-firms.html>

55 FSB, Spotlight on Innovation: How Government can unlock small business productivity, 2018, <https://www.fsb.org.uk/resources-page/innovation-report-final-pdf.html>

Figure 12: Small businesses with measures to support training, sole traders compared to small business employers

Source: FSB skills and training survey, 2022



The self-employed are more likely than other small businesses to have taken training in either digital (37%) or in a ‘key business activity’ (49%). They are less likely to have taken training in the categories related to developing their core skillset, such as job-specific training (24%), technical training (26%), accredited industry related courses (21%), or academic courses (7%). Most self-employed people have a business in a sector that is within their pre-existing field of expertise, so it is rational that they would rather take training in other core parts of running and growing their business.

The self-employed have frequently been left out of the debate on training; the Department for Education’s Employer Skills Survey does not even include them.⁵⁶ Yet they are a fundamental part of the labour market. If training opportunities are to be available to all, and if policymakers want to encourage more start-ups, self-employed people cannot be ignored. The self-employed are currently less likely to focus their training needs on improving their technical skills, and are more focused on building their business.

⁵⁶ Department for Education, Employer skills survey 2019, October 2020, <https://www.gov.uk/government/collections/employer-skills-survey-2019>

CASE STUDY: EnterprisingYou in Greater Manchester

In the 2018 Budget, it was announced that the Greater Manchester Combined Authority (GMCA) would work with the Federation of Small Businesses on a pilot to “test what forms of government support are most effective in increasing training levels for the self-employed.”⁵⁷

The pilot programme, EnterprisingYou, was subsequently launched in February 2020 and is currently due to run to March 2023, supporting up to 2,900 self-employed people. It aims to support the participants to develop and sustain their business, increase their skill levels, and raise their income potential.

The service includes access to a personal business coach who accompanies the client through a personalised package of support. This includes accessing a wide range of training and development courses and workshops, advice from specialists on certain subjects (e.g. on health and wellbeing support), and being matched with a peer mentor.

As it was launched shortly before the Covid-19 pandemic, the programme adapted its delivery model and primarily delivers its support services virtually. Despite this, the programme has had positive outcomes. To the end of September 2021, there were 1,624 starts on the programme, and 998 self-employed people accessed training and personal development courses. There is particularly high engagement from women, ethnic minorities, those aged above 50, and those with caring responsibilities.

In an evaluation of the scheme, access to training and personal development activity was the second most highly-rated element of the support package, after the support from business coaches. This demonstrates the value in self-employed people being able to access business-specific training and skills to support development.

There have been strong outcomes for those completing the programme:

- 64% of participants have increased their business turnover
- 54% have increased the profitability of their business
- 59% have seen improved business sustainability and longevity
- 71% report having improved skills to run their business.

As the programme progressed, it was clear that those businesses who had completed the programme wanted further, ongoing support. FSB provided discounted memberships to those finishing the programme. The Government should review the outputs of the pilot programme, and decide whether to expand it across the England regions. Just as FSB was included in the 2018 Budget as pledging to support this project, we would support a national expansion.

⁵⁷ HM Treasury, Budget 2018, p.61, 2018, https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/752202/Budget_2018_red_web.pdf

Recommendations

HM Treasury and HM Revenue and Customs should:

- **Allow the self-employed to deduct training expenses for taxation purposes, where this training is intended to help them expand their business.** HMRC guidance currently states that you cannot claim allowable expenses for training courses “which help you expand into new areas of business, including anything related to your current business”. This significant barrier to undertaking training must be removed, to help small businesses grow, improve productivity, and respond to changing customer needs. Improved tax relief was seen as the second most likely incentive to increase training provision by survey respondents.
- **Increase the Corporation Tax relief for employers training their staff, particularly low or medium-skilled employees.** The UK Government should consider further incentivising training through the tax system. With training tax relief and tax credits in other countries, the relief is largely used to support training for already highly-skilled workers, as they are more likely to be trained by their employer and have more expensive training. To encourage employers to train those with lower qualifications, the relief should remain at 100% for those employees being trained with Level 6 qualifications, and be boosted to 160% for those without a Level 6 qualification, and to 230% for those without a Level 3 qualification.
- **Alternatively, consideration could be given to discounts on an employer’s National Insurance Contributions (NICs) when they have provided training to staff.** As demonstrated with the abolition of employer NICs for young apprentices, small businesses would stand to gain most from this. They would also benefit in a more immediate way. This would also be relatively straightforward to apply. Given that those who are already highly-qualified are more likely to participate in training courses, and those training courses being more expensive, this should be weighted more favourably towards training for those with lower qualifications. We suggest the following weighting:
 - 20 per cent of the cost of a training course deducted from an employer’s National Insurance Contribution if the employee who took that course already held Level 6 or above qualifications.
 - 35 per cent of the cost of a training course deducted from an employer’s National Insurance Contribution if the employee who took that course already held a Level 3 qualification but did not hold a Level 6 qualification.
 - 50 per cent of the cost of a training course deducted from an employer’s National Insurance Contribution if the employee who took that course did not already hold a Level 3 qualification.

- **Simplify the eligibility criteria by clarifying that small business owners can claim tax relief on any type of training.** Current training tax relief for employers is limited to training that relates to the employee's current employment or to a "related employment." These are quite vague terms, and it is confusing for employers. The UK Government wants an 'employer-led' skills system, so it should trust employers that the training they provide for their employees is relevant to their work. After all, employers spend money on training courses and lose the employees' time at work.
- **Provide vouchers for small business employers to purchase external support to develop a training plan or a workforce development strategy.** Roughly half of small business employers would like to develop a training plan but say that there are too many barriers for them to implement. This includes a lack of time and resources, but also a lack of understanding of what their training needs are.

The Department for Education should:

- **Support the self-employed in learning new skills, including the skills required to grow their business, through continued commitment and expansion of EnterprisingYou in Greater Manchester.** In 2018, the UK Government announced a £10 million pilot project in Greater Manchester, in partnership with FSB, to test what forms of government support are most effective in increasing training levels for the self-employed. The pilot, EnterprisingYou, was launched in February 2020. Despite COVID-19 having disrupted the project, the scheme has still had good feedback and engagement. We encourage the UK Government to continue its commitment to this project and to expand it to other areas. Just as FSB was included in the 2018 Budget as pledging to support this project, we would support a national expansion.
- **Maintain Skills Bootcamps in the long term as a quick fix to overcome skills shortages.** We welcome the continuing commitment from UK Government to Skills Bootcamps as well as SMEs only needing to contribute 10 per cent of the cost of training existing staff. Short, intense, but flexible courses work well for those in work. They also work well for SMEs, with the DfE's assessment finding that 76 per cent of employers involved had under 249 employees.⁵⁸ The same assessment found strong levels of diversity in the learners undertaking courses.

⁵⁸ Department for Education, Skills Bootcamps wave 1: process evaluation, 2021, <https://www.gov.uk/government/publications/skills-bootcamps-wave-1-process-evaluation>

- **Build on the success of Skills Bootcamps by introducing 50+ Skills Bootcamps, which would provide the skills older people require to remain in or re-enter the labour market.** Skills Bootcamps have been a successful model. To encourage older workers who became economically inactive due to the pandemic to re-enter the workforce, these could be set up to provide re-skilling in areas that are increasingly important to employers, such as digital and green skills.
- **Introduce a Line Management Skills Bootcamp.** Skills Bootcamps have so far been particularly popular among SMEs, and using the Skills Bootcamps model to improve small businesses' people management skills could help microbusinesses especially to recruit and retain top talent.

The Department for Business, Energy and Industrial Strategy should:

- **Expand Help to Grow: Management so all small business employers are eligible or put in place an alternative bitesize equivalent programme for businesses with fewer than five employees.** According to our survey, a quarter (26%) of SMEs have taken management and leadership training over the past 12 months. This varies depending on the size of the business, with 41 per cent of those employing between 10 and 49 members having taken these courses. This is compared to 21 per cent of microbusinesses (under 10 employees). Despite low uptake from microbusinesses in leadership and management training, the majority of them are not eligible for Help to Grow: Management.

ENTREPRENEURS

Enterprise education

Between the start of 2000 and 2020, the number of non-employing businesses in the UK almost doubled from 2.4 million to 4.6 million. This figure has taken a drop due to the pandemic. Over the same time period, the number of microbusinesses (employing between one and nine) has increased by 27 per cent.⁵⁹

This surge in entrepreneurship is apparent amongst all age groups, not least young people. A 2018 study by the University of Reading found as many as one in four adults (25%) are engaged in ‘side-hustling’.⁶⁰ They define a ‘side-hustle’ as *“a small business or secondary job that someone has in addition to their main career, taken on either to meet a financial need or to fulfil a passion.”*

In the UK’s profile in the Global Entrepreneurship Monitor (GEM) Global 2021 report, there were several indications that the UK was improving in entrepreneurial activity in recent years, including a large number of people looking to start a new business.⁶¹ However, the GEM report ranked the UK 32 out of 47 when it came to having the right skills to start a business.

It is our view that the education and skills system does not currently adequately prepare young people for entrepreneurship. As outlined previously, school students should be presented with a range of options in terms of careers advice. This should include starting their own business.

Providing more information, inspiration and engagement for young people interested in starting a business should be seen as a paramount part of the education, skills and careers advice system. Children and young people who might be interested in starting their own business are keen for relatable role-models. Giving local business owners and entrepreneurs opportunities to share their experience of starting a business will help to encourage and inspire budding young entrepreneurs.

“Schools do nothing at all to promote enterprise. They aren’t talking to kids about becoming employers, they are setting them up only to be employees.”

Andrea Morrison, Founder of Andrea Morrison Business Coaching, Yorkshire

59 Department for Business, Energy and Industrial Strategy, Business population estimates for the UK and regions 2021, October 2021, <https://www.gov.uk/government/statistics/business-population-estimates-2021/business-population-estimates-for-the-uk-and-regions-2021-statistical-release-html>

60 University of Reading, The Side Hustle Economy: A White Paper from Henley Business School, 2018, <https://www.henley.ac.uk/sidehustle-1>

61 Global Entrepreneurship Monitor, Global Entrepreneurship Monitor 2021/2022 Global Report: Opportunity Amid Disruption, 2022, <https://www.gemconsortium.org/reports/latest-global-report>

However, there are some non-governmental programmes that encourage entrepreneurship, such as the charity Young Enterprise. According to Young Enterprise, educators agree that its Company Programme helped students develop an enterprising mindset and, as a result, 91 per cent of young people who participated in the programme had a greater understanding of the world of work.⁶²

The reach of these programmes is nevertheless limited. A study by Nesta estimated that under 1.5 per cent of the UK's school population is currently reached by schemes focused on getting children interested in inventing.⁶³ Nesta found that schools with better-off pupil populations are based in the South and London and are more likely to take part in schemes that promote invention.

"I have had a very positive experience of attending Young Enterprise in North West and had some fabulous evenings judging participants. I think all kids have that enthusiasm where they say, 'why can't you do this?' 'Why can't you do that?' But it's drummed out of them due to the lack of support and encouragement."

Chris Manka, Strategic Business Consultant at Exporteurs.co.uk, North West

One problem is that there is a lack of clarity on which Government department has responsibility for these policy areas within Whitehall. Without policymakers having explicit responsibility, there is a tendency for policy to fall between the gaps. The forthcoming publication of an Enterprise Strategy is a welcome opportunity to prioritise enterprise education.

It is important to see these areas within the wider education and skills landscape. While there are specific pieces of knowledge that can be taught, both being a successful entrepreneur and being an effective manager require a range of 'soft' skills. For example, creativity and positivity are paramount skills for entrepreneurs, while communication and teamwork are essential to being a successful manager.

To become a high-growth, productive economy, the UK needs successful businesses and new, innovative companies. To achieve this, we need to ensure that we are delivering the skills people require to start, run, and grow a business.

62 Young Enterprise, Company Programme: Delivery and Impact Report 2019/20, accessed April 2022 <https://www.young-enterprise.org.uk/programmes/company-programme/>

63 Nesta, Opportunity lost: How inventive potential is squandered and what to do about it, 2018, <https://www.nesta.org.uk/report/opportunity-lost-how-inventive-potential-squandered-and-what-do-about-it/#content>

Recommendations

The UK Government (England) should:

- **Assign a Minister responsibility for Enterprise Education, ideally as a joint Minister between the Department for Education and the Department for Business, Energy and Industrial Strategy.** The Minister will be responsible for ensuring that enterprise education is valued throughout the education system and that all young people are aware of the opportunities available through starting their own business. They would also have responsibility for promoting leadership and management skills, and for ensuring more small business owners are taking training in this area.
- **Launch a nationwide young enterprise competition for both school leavers and university/college leavers. This competition would provide a competition winner from each English region, with start-up funding for their idea, access and advice from a mentor, and cost of living support for one year after they complete their studies.** This could be based on the German EXIST programme, where university graduates, scientists, and students get support to develop their start-up.⁶⁴ This has been a successful programme, but it does not need to be only focused on science and universities. Many young people have a strong business idea before they reach 18 and just require information, advice, and the security that funding would provide. The two separate streams of universities and college and school leavers would be based throughout the UK and be required to launch the business in the region where they study or entered the competition. As well as potentially developing successful, innovative businesses, this competition would improve the reputation starting a business after leaving education.

The Department for Education should:

- **Provide grant funding so all schools can offer programmes to encourage enterprise, such as Young Enterprise's Company Programme.** Many participants in our focus groups highlighted that they had been on Young Enterprise's Company Programme and spoke of the skills they learnt. The members highlighted that many schools missed out on the programme due to resource concerns. Therefore, UK Government should fund the costs of one student company (£530) per state school in England.

64 German Federal Ministry for Economic Affairs and Climate Action, EXIST - University-Based Business Start-Ups, accessed August 2022, <https://www.exist.de/EXIST/Redaktion/EN/Dossier/About-EXIST/About-EXIST.html>

- **Provide opportunities for all school pupils to gain exposure to entrepreneurship, through introducing a legal requirement for schools to provide at least one ‘encounter’ with entrepreneurship.** The Department has announced plans for a new minimum legal requirement for all schools to provide at least six encounters with a provider of approved technical education qualifications or apprenticeships. While this is welcome, school pupils should be offered a better understanding of the opportunities provided by entrepreneurship.
- **Revisit Lord Young’s proposal of an ‘Enterprise Passport,’ which should also include technical training related to entrepreneurship and be the equivalent of an A Level.** In Lord Young’s review of enterprise education, he made a series of recommendations that were not fully enacted.⁶⁵ One of them was the idea of an ‘Enterprise Passport.’ This would record and demonstrate young people’s enterprise learning and work experience throughout their education. As the review outlined: “This will be held digitally and offer a pool of accredited enterprise schemes and resources to educators, a differentiator for employers looking for proven employability skills alongside educational qualifications in a young person’s CV, and an accessible tool for Ofsted to assess the quality and level of a school’s enterprise commitment.”
- **Conduct an evaluation of students’ understanding of the technical skills relevant to enterprise, as well as testing school leavers’ ‘soft’ skills that are important for enterprise.** This should include knowledge that is vital in setting up a business, including designing a business plan and accessing suitable finance. In the areas with the weakest results, UK Government should encourage and jointly finance, if necessary, schools’ access to programmes that provide education in these subjects.
- **Include in school destination data the percentage of students who have gone on to start their own business.** It is welcome that the Department includes the percentage of students going on to enter an apprenticeship in school destination data.⁶⁶ Including the number starting a business would similarly encourage schools to promote and encourage enterprise amongst their students.

⁶⁵ Lord Young, Enterprise for all: The relevance of enterprise in education, 2014, <https://www.gov.uk/government/publications/enterprise-for-all-the-relevance-of-enterprise-in-education>

⁶⁶ Department for Education, Find and compare schools in England, accessed August 2022, <https://www.gov.uk/school-performance-tables>

The Careers and Enterprise Company should:

- **Develop a long-term strategy to promote enterprise to school children.** Statutory guidance on careers advice should be amended so young people are made aware of the range of different employment opportunities available, including being self-employed. In addition, the Careers and Enterprise Company (CEC) should consider how young people could have more information on starting their own company. There has been an increase in awareness of apprenticeships in recent years; CEC should work to boost awareness of entrepreneurship similarly.⁶⁷

The Office for Students should:

- **Reward university courses with high amounts of students starting their own business, rather than punishing them.** The Office for Students (OfS) is proposing to define a good outcome of a higher education course as being a student having progressed to further study, or to managerial or professional employment 15 months after graduation.⁶⁸ Higher Education Institutions could be investigated and penalised by the OfS if fewer than 60 per cent of their graduates go on to work in what it classifies as skilled employment. This will put universities off from encouraging students to be running their own business 15 months after graduation. Instead of going ahead with this measure, OfS should incentivise universities to encourage their students to start their own business, and these numbers should be included in university league tables.

67 The Careers and Enterprise Company, Trends in Careers Education 2021, 2021, <https://www.careersandenterprise.co.uk/our-evidence/evidence-and-reports/trends-in-careers-education-2021/>

68 Office for Students, Consultation on a new approach to regulating student outcomes, 2022, <https://www.officeforstudents.org.uk/publications/student-outcomes-and-teaching-excellence-consultations/student-outcomes/>

METHODOLOGY


This report is based on FSB members in England's experiences and views on skills, recruitment, education and training. FSB undertook a mixed-method approach for the research, consisting of a quantitative online survey and three focus groups. The survey was nationwide 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 23 February 2022–14 March 2022. The survey questionnaire was completed by a total of 881 small businesses, though the report is based on the responses received from 675 small businesses based in England. 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 sum to 100 per cent.

The focus groups took place via Zoom with members based in England, and purposefully drew from a variety of regions and sectors. Three focus groups took place between 5-13 March 2022.

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