



Select Committee on Youth Unemployment

Uncorrected oral evidence: Youth unemployment

Tuesday 27 April 2021

11.50 am

Watch the meeting

Members present: Lord Shipley (The Chair); Lord Baker of Dorking; Baroness Clark of Kilwinning; The Lord Bishop of Derby; Lord Empey; Lord Hall of Birkenhead; Lord Layard; Baroness McIntosh of Hudnall; Baroness Newlove; Lord Storey; Lord Woolley of Woodford.

Evidence Session No. 7

Virtual Proceeding

Questions 59 - 66

Witnesses

I: Andrew Chamberlain, Director of Policy, Association of Independent Professionals and the Self-Employed; Mike Cherry OBE, National Chairman, Federation of Small Businesses; Michelle Ovens CBE, founder of Small Business Britain.

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Examination of witnesses

Andrew Chamberlain, Mike Cherry and Michelle Ovens.

Q59 **The Chair:** Welcome to this evidence session of the Youth Unemployment Committee. The meeting is being broadcast live via the parliamentary website. A transcript of the meeting will be taken and published on the committee website. You will have the opportunity to make corrections to that transcript where necessary.

I welcome our witnesses and apologise for the very slight delay in starting your session. I will ask each of you, Michelle Ovens, Mike Cherry and Andrew Chamberlain, to introduce yourselves to the committee and to those who are watching this broadcast. Andrew Chamberlain is director of policy for the Association of Independent Professionals and the Self-Employed, Mike Cherry is national chairman of the Federation of Small Businesses, and Michelle Ovens represents Small Business Britain. Could you give us three or four sentences of introduction and then we will move to my first question?

Andrew Chamberlain: Thank you, Lord Shipley. I am the director of policy at IPSE, the Association of Independent Professionals and the Self-Employed. We represent all the self-employed in the UK through lobbying and give them business advice, and we advocate for the UK to become an environment in which self-employed people can flourish.

The Chair: Let us go on to Mike.

Mike Cherry: Thank you, Lord Shipley. Good morning, everybody. I am the elected national chair of the Federation of Small Businesses, or FSB. We are the largest business organisation in the UK and the youngest, being established in 1974 to represent the self-employed. We currently represent all small businesses and indeed some medium-sized businesses as well. We cover the whole gamut. Like all our members, I have my own business, which is a traditional manufacturing business but using high-tech in this day and age, so I cover the whole spectrum of basic manufacturing, laser engraving and things like that. I am very keen on apprenticeships.

The Chair: Thank you. Michelle?

Michelle Ovens: Good morning. I am the founder of Small Business Britain, and we champion the UK's small businesses. We are a campaigning organisation, a research organisation and a skills organisation, which I think will be very appropriate to today's conversation. I recently stepped down from three years as chair of the Small Business Charter that recognises and gives awards to universities that work with the small business community. Again, that will be very relevant when we are talking about young people and entrepreneurship.

Q60 **The Chair:** Thank you for that. Let me move to the first question. I would like to get into the specific context of the impact of Covid. There are the broad policy issues that we were debating earlier, but I am

particularly interested in the challenges small businesses that employ young people, and indeed young people who are self-employed, have faced during the Covid crisis. Are the problems unavoidable, and that is the way it is bound to be, or have you any suggestions as to what might be done to safeguard against these kinds of impacts in the future—in other words, effective scenario planning? Do you have any advice you could give the committee on that?

Andrew Chamberlain: Thank you, Lord Shipley. All of the self-employed have been impacted very significantly and very negatively by the Covid pandemic. Young people have faced particular challenges, I think. One area of concern that has been highlighted many times over the last year is that the support available from the Government to self-employed people has been patchy. We have the self-employment income support scheme, which we were very pleased that the Government introduced. It is a very generous package of support to those who are eligible for it, but there are specific groups who are ineligible. One of those groups is those who happen to incorporate a business and work for their own limited company. They cannot access it.

Another group was what we called newly self-employed people. The scheme was available only to those who had done a tax return for the 2018-19 tax year. Anyone who started in self-employment after April 2019, indeed anyone who had started about half way through the year before, because of the way that the other rules work, was likely to be ineligible for that scheme. A lot of young people are likely to have fallen into that bracket because, being younger, they are quite likely, if they are self-employed, to have been self-employed only for a short period. Thankfully, the Government changed that rule after the deadline for the last tax year passed. They have now included people from the following tax year. That is helpful, but because of that, in the last year, several young people were very badly impacted.

I will not bombard you with statistics, but there are a couple of other things that I want to say quickly. There is a problem, as many people know already, with late payment for the self-employed and small businesses; in other words, they do some work, they send in their invoice, but they do not get paid on time. The problem is definitely worse for young people; 57% of those aged between 16 and 34 are most likely to experience late payment, and that age group is the most likely to have experienced late payment since the onset of the pandemic.

There has been a big problem with debt. Lots of people who could not access some of the government support available have got into debt, and 30% of young freelancers have reported that they have burned through all their savings, perhaps because they had less savings to burn through to begin with. This is a group of people who have had a very rough year during the pandemic.

The Chair: Let us go to Mike.

Mike Cherry: Thank you, Lord Shipley. I very much agree with what Andy said. Small businesses have been devastatingly impacted by the pandemic. It is something no business or society has seen before. We were not prepared for this type of pandemic, obviously. Small businesses have had to take advantage of the Government's support schemes. Andy has already mentioned the self-employed scheme, which was very welcome, but unfortunately we have also had, as he mentioned, company directors who were not eligible for any of the support. That is despite the FSB working closely with others to put forward what we felt would be a solution, but which has, so far, been rejected by the Government.

On all the support measures, such as the CBILS loans, we had to fight to get the criteria changed so that more businesses could take advantage of them. We had to fight to get the bounce-back loans brought in. We now find at this stage that businesses that need a little extra support over the next two or three months, as they restart, and that are not seeing the same footfall are unable to access any more debt, not that they wanted it in many cases in the first place. They are unable to access the recovery loans that have now been brought in.

Furlough has been extremely beneficial. At the outset, it was not based on being available for part-time work. It was based on a three-week criterion. We managed to encourage the Government to change that, thankfully, so that businesses that are able to bring young people in particular back into work do not have to have them for a week or two weeks at a time. It can be on an almost daily basis, which again, when you are seeing low footfall of custom in whatever sphere you are in, is proving advantageous.

I think it is going to take a long time for business to recover. A lot of the support has had to be almost dragged out at the last minute. It would have been more helpful had the Government been able to give indicative ways forward, rather than having to wait until almost the end of a period when there was a cliff edge looming and there could have been redundancies being made and discussed. I think a little more forethought, particularly as we went into the last lockdown, would have been more helpful for businesses to plan ahead. We are not out of this yet. Many business are stuck with a lot of debt.

As Andy mentioned, the cultural problem that we have with late payment has been exacerbated during the pandemic, with some larger customers taking much longer to pay, or even being very blunt and saying, "We're not paying at all". It is unhelpful. We are aware of some businesses being made to wait over 120 days, which equally would apply to the self-employed, for payment done and dusted in the provision of goods and services, while larger businesses had much more readily available access to commercial markets and finance, compared with the smaller businesses that have in many cases used up all their savings, if they had any, and have taken on increased levels of debt and will struggle over the next few months until they see trade return, we hope, to something near normal.

The Chair: Thank you. Let us go to Michelle.

Michelle Ovens: Thank you. There are two things: young people employed in small businesses and young people who are self-employed themselves. There are wildly different experiences across the board. First, for small businesses with staff, there are challenges with isolation, working from home, engaging with new technology, working remotely and staying motivated. While those are relevant to all staff, it has been more of an issue for young people, particularly those living in shared accommodation, having to work from their bedrooms and dealing with issues of connectivity and technology. Young people are less likely to have everything they need at home to work effectively, such as broadband and laptop software. A lot of that can be addressed, and a lot of it has been addressed by small businesses over the last year, but it has created hurdles. It has created costs for small businesses, and in some cases it has been a challenge too far for the business.

We have seen the mental health challenges of isolation, which have been quite significant. As the pandemic has gone on for over a year, we have lost a lot of skills and training opportunities in that isolation and lost a lot of socialisation elements in the workplace. This will be caught up on, but it has had more impact on younger workers.

Young people have been put on furlough by small businesses, sometimes for long periods. They have often not been in the business for long, and it is about keeping them engaged, managing their mental health and finding a way back for them. A lot of them are living in fear of their job disappearing. For some of course this has actually turned out to be the case. There are businesses that have closed down and have had to lay off staff, leaving young people needing a new route forward in what is now a crowded recruitment market. Small businesses in sectors that have been largely shut down for a year, such as arts and entertainment, have really been adversely hit. People are unsure about what the future holds.

On the flip-side, there have of course been businesses that have done well; they have continued working as normal or are even growing, and have been able to provide secure and exciting workplaces for young people. We have spoken to a lot of people who are now actively looking to give opportunities, particularly in their local community. That is an encouraging trend. There is no single answer across that group.

For the young self-employed, it wildly differs depending on sector, very importantly on location, on their support infrastructure and on their individual skills level. If they could continue, or pivot, or engage with digital and find a way forward, they may be doing okay. If they are in sectors that have struggled, if they are not receiving SEISS—we have already heard a bit about that—and they have not been able to change direction, they have faced a number of issues. They are likely still to be facing issues of isolation and are less likely than the broader population to be tapped into good support infrastructure.

We have done some research, literally in the last week, specifically looking at 18 to 24 year-olds; 24% cited lacking access to business support as a barrier for them. This will exacerbate the challenge of continuing long term. We have also seen increased mental health issues and reduced confidence; 26% cited mental health as a barrier to success. Of course, their skills and their tools to deal with these challenges are impacted by a lot of different factors. Young people from more affluent backgrounds with good local and family support structures and those who are still connected to education settings in some way are dealing with them better. Young people who have left education, who lack a local support network or are from marginalised groups, such as people with a disability, are less likely to be feeling confident. Remember, that is 20% of people going into working age. They are more likely to face barriers to success. With all of this, there is of course a risk of polarising. The more capable businesses may just be in a sector that is working okay and doing better and better, and the marginalised are falling further and further behind.

There are ways we could guard against the impacts. To some degree, there is no one-size-fits-all approach. There is a very broad spectrum of differing experiences. I absolutely support what Andy and Mike have said. Digital skills are critical to building virtual support networks when the real ones are drastically reduced, not just the digital skills for business but for the broader support network. In many ways, the pandemic has been a bit of a democratiser for marginalised groups by enabling home-working, enabling digital dialling and actually making some things more accessible, not less. We need to think about how we continue that, post pandemic, with the development of skills in those areas as well.

There is social acceptance of alternative ways to engage. We were talking to a disability campaigner last week who said they had been for years and years trying to advocate home-working and digital engagement to enable more people to take part in work. It took a pandemic to change that situation and for it to become much more acceptable. These changes will serve broader society and marginalised groups well. We need to make sure that in the future there are safety nets in place for businesses, particularly those run by young people, to be in a position to access support that includes connectivity and technology and a clear customer journey to where that support is. There is a lot of business support. I know that Andy and Mike provide an awful lot of it as well. A lot of the time, whether it is private sector, public sector or LEP support, businesses just do not know about it. We find that is particularly the case with young people.

The Chair: Thank you all very much for that. I will pass on to Lord Layard in a moment. This specific issue may change over the course of coming weeks. Other things may happen. If you have any specific reaction to the impact of the pandemic, say in June or July, we would be very keen to hear from you with further updated written submissions. Please feel free to update us specifically on the Covid issue. I pass now to Lord Layard.

Q61 **Lord Layard:** I want to ask about apprenticeships and how we can get more young people into apprenticeships, especially of course in SMEs. We heard in the last session about the problem of numbers and that not enough places are being offered by employers. Could you tell us what changes you think are needed to get more employers, and more SMEs in particular, to offer apprenticeship places? Maybe you could comment on the funding aspect, the advice and support aspect, and the promotion aspect. In particular, any comments you had on the performance of the National Apprenticeship Service and the funding agency would be very helpful. Maybe Mike could go first.

Mike Cherry: Thank you, Lord Layard. Where I do I start? Quite frankly, as a country we have not, over time immemorial almost, given enough recognition to good vocational skills and training. It is only now that we seem to be recognising just how far away we are from being able to give young people who are better equipped to take a vocational route than an academic route the training and the skills they need.

Part of the problem around all of that has been the lack of consistency of offer over far too many years. Consistency of offer means that everybody needs to understand exactly what the offer is of a good apprenticeship. That means employers. Employers need to group together so that when one is unable to continue with an apprenticeship, as used to happen, another employer would be able to continue to give that apprenticeship to the young person. It also means that schools need to understand what the offering is. That means there needs to be better engagement between communities and businesses and the schools and education sector.

There needs to be an understanding more generally between parents, guardians and others of what a good vocational skill set can offer their children. This is something that needs to be offered consistently. It needs to be based around needs, particularly as we come out of Covid into an economic recovery that will be driven by small businesses. Let us not forget that small businesses employ 60% of the private sector workforce and provide almost 50% of GDP. They will be at the heart of the economic recovery. We need to make sure that people understand exactly what a good apprenticeship can offer, and the advantages that it can offer, particularly for somebody who is later on in their career path who is able to access a degree apprenticeship that perhaps they would not necessarily have been equipped or able to take up through the academic route from the outset. They can go down the vocational route and they learn those skills first.

The other thing that people often forget, as they look at large employers and think, "Oh, that's great, they can provide 1,000 or 5,000 placements", is that the consistency of offer has to be medium term at the very least. It is much more likely that small businesses collectively can deliver much more in the medium term, but it is not always when government has a pot or initiative. It is when the business needs to be able to take advantage of it. Unfortunately, at the moment, it will take time for businesses to get back into gear, and for their customers to get

back into what would be a normal trading environment, and therefore look to take on more young people. I think the great opportunities that will be available will be provided predominantly by small businesses.

Let us not forget that small businesses are a much more supportive environment and give a much wider breadth of opportunity within the business, so that the individual is not necessarily put in one role or skill set. They have a much greater opportunity to have different skill sets imparted to them when they are with a small business in training, apprenticeships and learning skills. Often, it is the providers that are not necessarily on top of what small business needs. Somehow we need to address that. I do not know where it sits these days. It could be with the LEPs. It could be elsewhere. Somehow, we have to address whatever the needs of our society and businesses are for our future, which will be critically important, particularly as we are now outside the EU and have some great opportunities to see how we can grow our businesses in other overseas markets as well. I have raised many things there. I am happy to elaborate, perhaps on Kickstart and things like that, if the committee would like to ask questions on that.

Lord Layard: Sticking with apprenticeships for the moment, maybe we could hear from Andrew and Michelle, please.

Andrew Chamberlain: Thank you, Lord Layard. We represent self-employed people. They cannot access the apprenticeship schemes that are generated via the apprenticeship levy. It is not an area that we have talked about too much for that reason, but I have a couple of quick observations.

The first is that there is a problem with training for self-employed people and getting the skills that we need into our self-employed workforce. Because self-employed people are responsible for their own training, they have to take time off work to do the training and pay for the training themselves. In most cases, it is not even tax deductible. That is something the Government looked at a while ago but, unfortunately, decided not to do anything about it, despite IPSE lobbying to say that they should.

We would like the apprenticeship levy looked at to consider whether there might be some way that some of the pot of money that is available there could go into training self-employed people. After all, self-employed people made up 15% of the labour market just over a year ago. It has for the first time in around 20 years taken quite a big hit in the last year, so we have fewer self-employed people now than at the start of 2020. We have lost about 600,000 self-employed people since then because of the pandemic. Probably we will return to seeing the numbers of self-employed people grow. It is a trend worldwide that more and more people are turning to self-employment for their work. Therefore, we need to think about public policy, such as training and skills and the apprenticeship levy, and not always target it via employers.

I quite understand why successive Governments have always targeted many public policies via employers. With automatic enrolment for pensions, it is the same thing. It is a very successful public policy. More people now have pensions than they did before, but it relies on an employer being there. We are somewhat ignoring the fact that fewer and fewer people have an employer. We need to think about policies such as the apprenticeship levy and other things like auto-enrolment and how we can introduce schemes that target self-employed people just as well. That is what I wanted to say on the apprenticeship levy. Thank you.

Lord Layard: Thank you. Michelle?

Michelle Ovens: Andy makes a really good point about skills. Mike made some really good points and there is one that I want to pick up. He mentioned the breadth of experience that a small business can offer. The structure of apprenticeship, and imagining how that adapts in a small business, can be a challenge for the small business. Big organisations have systemic functions, but a small business does not necessarily have them. You have to turn your hand to lots of things. It is not always appropriate to the [*Inaudible*]. When we surveyed small businesses this year, in January, a very small number had even considered apprenticeships as an option, yet actually there are different things that they could engage with.

There is a perception that "Apprenticeship is vocational skills. It's not me", but it could be a digital marketing apprenticeship, for example. We should think about how young people can bring their skills to help small businesses. I think there is wide misunderstanding in small businesses about the role that apprenticeships could play for them, and how they could engage with apprenticeships. Aside from the self-employed, a vast number of small businesses in the UK are micro-businesses, tiny businesses where everybody has multiple different roles, so focusing one role on one specific topic of an apprenticeship can feel outside the experience of a lot of small businesses. I genuinely believe, as someone who has had a digital marketing apprentice in their past, that that does not have to be [*Inaudible*]. There is a massive sales job maybe to be done with those micro-businesses to have that conversation.

Lord Layard: Thank you.

The Chair: Lord Empey has a supplementary.

Lord Empey: Thank you, Chair. One knows that whenever there is a financial difficulty things like maintenance get cut back. Did I interpret our guests as saying that in the short term they feel there will be less opportunity for apprentices, and less opportunity for young people as a result of Covid, because perhaps skills training and apprenticeships are things that would have to be cut back in the short term? Can we start with Andy?

Andrew Chamberlain: Thank you, Lord Empey. I do not think I intentionally made precisely that point, but there is a logic to what you

say. Overall numbers of self-employed people have dropped quite significantly in the last year. Self-employment has always been precarious. That is the nature of it. It is a riskier way of working than employment. Employment itself of course is not entirely without risks.

In the last year, we have seen that it is very risky. For hundreds of thousands of businesses, demand was completely wiped out overnight and then patchy support was available. If you are lucky, you will get some. If you are unlucky, you will get less. Lots of people have, I think for that reason, stopped being self-employed in the last year. Certainly, I have seen that. Spending by employers on training, apprentices and things is probably not my area of expertise.

Lord Empey: Mike, was I reading you correctly in saying that you felt in the short term there would be a cutback?

Mike Cherry: I am not sure I intended it to be necessarily a cutback because I think we are in a position where businesses have automatically had to furlough their staff, or even make their staff redundant or go out of business. That in itself means that it will take time to get back to the normal levels of taking on young people, regrowing new businesses and regrowing the numbers employed, but small businesses will absolutely be at the heart of the economic recovery.

Touching on funding, a lot of small businesses do not even know that there is funding available to support them on apprenticeships. That is despite what we and many other organisations do to promote the fact that there is support.

It is difficult—I think it was touched on in the earlier session—for small businesses to access good apprenticeships and understand how to go about it. If we are going to look at this for the medium and longer term, it needs to be much better understood and much simpler for a small business to engage. It has to be based on need, as I said, rather than on any provision by training providers or any other initiative from government. We have to get the basics back in place. Small businesses will then be able to take advantage of that and grow the jobs that we need for the future.

Lord Empey: Thank you, Mike. Michelle?

The Chair: Michelle, are you there?

Lord Empey: Maybe we will just move on, Chair. Thank you very much.

The Chair: We will move on. Maybe we will get a chance to ask that at a later point if Michelle gets back on to the call. I am working on the assumption that colleagues are trying to link her. Shall we go on to Baroness McIntosh?

Q62 **Baroness McIntosh of Hudnall:** Thank you. Lord Layard took us into the area that I might have been asking a question about. We skipped over Kickstart. I noticed that Mike mentioned that he had some things he

might want to say about Kickstart, so I invite him or any of our other guests to do that.

I want to pull one particular thread out of the question that I was going to ask. I should say in context that the sector that I know most about, which is the arts, particularly the performing arts, has been especially hard hit in some of the ways that Andy mentioned. It is made up of a lot of freelancers, who have turned out to be ineligible for a lot of support, and lots and lots of small businesses.

Is the way that government thinking about the apprenticeship levy now appears to be developing going in the right direction to make it possible for more small businesses to engage with the possibility of taking on apprentices through collaboration or shorter periods? Andy, this is particularly for you. Can you elaborate a bit on how you think training people who either are or are likely to become self-employed—people who have very particular skills that they are going to take from business to business—can be included in an apprenticeship scheme that is much more flexible than has been the case up to now? I hope that makes sense. I do not know whether Michelle is on the call now. If she is, perhaps she would like to start. If she is not, perhaps Andy can.

The Chair: Michelle, I think you joined us partway through.

Michelle Ovens: I did. I joined partway through the question, so I missed the first half of the question. I am so sorry.

The Chair: Do not worry about that. We will go to Andy, and then I will come to you because, in his answer, he will tell you what the first question was.

Andrew Chamberlain: Thank you, Lord Shipley. Thank you, Baroness McIntosh for that question. You mentioned the performing arts. The creative industries as a general grouping, which could be anything from people working in theatre, film and TV to graphic designers, have a very high number of self-employed roles, as you say. In fact, the Creative Industries Council released some research in 2016 that found that 43% of roles in those industries were taken up by self-employed people. As we know, many of those industries were particularly badly hit and continue to be particularly badly hit by the pandemic and the lockdown measures.

I have been in touch with several theatre groups and various other bodies around that sector, and they have been completely and utterly devastated. Many of them, as we said before, could not access the flagship government support scheme, the self-employment income support scheme, for one reason or another. They really have been left to struggle on their own. We have seen a 341% increase in the number of self-employed people claiming universal credit in the last year, which just goes to show you the scale of the problem.

Moving on to the second part of your question, which I think was around whether we can think of ways that the apprenticeship levy could be reformed or whether there are other ways to get more training to self-

employed people because there is a specific problem. I will tell you where else this is being talked about a lot: in the construction industry. The construction industry has close to 1 million self-employed people in it. In fact, it is the largest individual sector for self-employment in the UK. There has been much talk of late about what we are going to do around training in that sector because, like everywhere else, it is going through a period of rapid technological change. We have a workforce within it that has fantastic skills but is perhaps not ready for the construction industry of the next two decades that we are staring down the barrel of right now. How do we get that training in?

What I find a bit troubling in that discussion is that there has been a bit of a sense of, "Well, what we need to do is get less self-employment and more employment, and that will naturally lead to better training." That concerns me because, as I said earlier, there is a global shift towards more self-employment. I do not like the idea that we just say to people, "Well, go backwards in time and get back into employment because that worked." I would rather we said, "We understand you want to work in this way, so let's develop public policy that works with that." Of course, that presents challenges—it absolutely does—but that is the challenge for public policy if we are to see self-employment grow again, as I believe we will.

By the way, Mike made an excellent point earlier about how small businesses will power the economic recovery. I completely agree, and I think self-employed people will, too. Self-employed people can be the catalyst for economic recovery. Many firms that will be nervous about taking on more head count in employment might look to self-employed people to come in to do some projects, and we will start to see growth. We are very lucky to have a large pool of skilled and talented self-employed people in this country, but we should keep that going. We need to keep that and we need to think about ways of getting training to them. Do I have a specific answer? No, I do not have a specific answer.

I am sorry; I know I am going on, but there is one other thing. I mentioned it earlier. Training for self-employed people is tax deductible only if it relates to your main business. For example, if you are a graphic designer but you want to do a course in bookkeeping to help you run your business, that is not a tax-deductible expense. We at IPSE believe that it should be. The Government looked at that about four or five years ago, and unfortunately decided not to do it. We would like that revisited. That is one small adjustment we could make in our tax system to encourage training among self-employed people.

The Chair: Thank you. Michelle, do you feel able to respond now?

Michelle Ovens: Yes. A huge apology. The whole internet to the house disappeared.

The Chair: Please do not worry about it. It is a reasonably common event for us.

Michelle Ovens: Back to the question. Andy made some great points, especially on the idea that if you were employed versus being self-employed you would get training.

There has broadly been a big challenge for small businesses, particularly pre-pandemic, with regards to skills training. There are a lot of reasons for that: lack of time, perceived lack of cash available to pay for it and lack of understanding of what is available. We saw quite a big shift in skills training over the pandemic, whether that was increased downtime, for whatever reason, or more digital engagement. Digital skills have gone through the roof.

There are some interesting skills developments such as the Help to Grow: Management programme that was announced in the Budget. This is being delivered by Small Business Charter and business schools around the country. However, you have to have five employees to take part. They are targeting 30,000 businesses. It is a great start, but I would like to see it for the smaller end of micro-businesses, or even for the self-employed. It is particularly targeting the areas where small and micro-businesses are known to have challenges: strategic setting, financial planning and management.

When we asked small businesses where they were lacking in skills, last year particularly, people talked about digital marketing because they are very focused on recovery. How do we drive the top line to get back to business? Digital skills and management skills are all part of the mostly government-funded Help to Grow programme, which is great, but it misses out the smaller end of businesses and the self-employed. I think there is an argument to be made that they would disproportionately benefit from that kind of training. It tends to be delivered locally. There is a network of business schools around the country that are delivering it, and it is also available online. That is a democratising approach. It does not matter where you are; you can still access that support. There has been massive take-up of it. It has been really well received.

The next step is to think about how we go down to the smaller end of business to deliver skills training. There is a £750 cost to the business. For smaller businesses, that starts to become quite a lot of money to access that level of skills. We also might want to think about what is the entry point for really tiny small businesses in paying for their own skills. It is not just the cost bit. One of the challenges that we find with small businesses is articulating the cost-benefit trade-off for them, telling them that it will be helpful for their business. Do they believe us? Often, we need to get them into free training before we can get them into paid-for training.

Baroness McIntosh of Hudnall: Thank you. Mike, do you have anything to add?

Mike Cherry: Yes, thank you, Baroness McIntosh. You said you would like a bit of information on Kickstart. It has been quite a long time, as we know, since the original announcement and actually getting it into place

and working. FSB has been working incredibly hard with DWP to address some of the problems that we encountered. FSB has also worked hard to provide its own gateway for our businesses. We are at a level now where we have roughly 3,000 looking for the opportunity to take on a Kickstart person. They are only now being placed with businesses. The demand is certainly there, which addresses an earlier point. I am a great believer, and the FSB is a great believer as well, in being able to use work placements as a way to help young people and the business—it is a two-way thing—to see what their skill set is, and whether they are better adapted for something else. It could be on the digital side or it could be a more normal skill set that the business may need.

Having that opportunity is such a benefit to the business and to the individual that we need to make sure that it is not just on an initiative basis and that there are long-term, sustainable and consistent offerings that are available when the business can take advantage of them. It is no good government coming up with something next month. Businesses are not going to be ready next month. They will be ready when they are ready to grow their business and take on more people. On Kickstart specifically, we are not going to achieve the numbers unless we have it extended. We need to look at whether or not its scope should be widened.

On an earlier point, small businesses are often a much better opportunity for the hard-to-reach groups to get back into employment or to get into employment in the first place, or indeed to try to help people on the self-employed route. A lot more needs to be done. The offer needs to be consistent, but it needs to be extended as well.

Coming back to the apprenticeship levy, we have some real worries that the levy fund will not be sufficient. It is likely to become exhausted. Therefore, just at the time when more small businesses may well be looking to take on apprenticeships, they will not be able to because the funding will not be there. I have a real concern about the idea that you can use the apprenticeship levy for basic training skills. That should not happen. It should be there for what it is intended to be for, which is apprenticeships, and it should be easier and made more readily available for small businesses compared with how it is at the moment. Accessibility and the quality of training from providers is sometimes worrying. Nearly one-third of our members report that they have difficulty in helping providers to understand exactly what small business needs are. There needs to be a better connection between smaller businesses and the training providers' understanding of what those needs are. They are very often not the same as for larger businesses.

Baroness McIntosh of Hudnall: Thank you. That is very helpful.

The Chair: Thank you very much. On the specific issue of Kickstart, if there are further comments, we are very interested in getting them from all our witnesses, particularly if anything happens over the coming weeks that alters structures or anything like that. There is an open book for us to receive comments on this issue through until July. I move now to

Baroness Newlove.

Q63 Baroness Newlove: Thank you, Chair. As a mother who has daughters who are self-employed it has been very interesting listening to all of you, especially Andy.

My question is to Andy Chamberlain. I am very much for developing young people's skills. We miss lots of creativity and entrepreneurship. If they do not follow a formula in the curriculum, and they are not interacting with education, but they have a creative brain, how can young people develop those skills to become successfully self-employed? What skills do they need to do that? More importantly, how do education providers nurture those skills? I find the difficulty is helping the education system to fully understand that. I love entrepreneurship. I meet many youngsters who do not like English and maths as we have to have them, but if you give them a creative project they are actually doing English and maths. They do not know it, but they are, if you get what I am saying. What role might entrepreneurship and life skills play in the national curriculum?

Andrew Chamberlain: Thank you, Baroness Newlove. We at IPSE tend to think that there are often two parts in running a successful self-employed business. Very often, someone has passion and great talent for something they can do. That is one part of it, and they can deliver that part; they are much better than anyone else at doing that. There is also the part that is running a business. That is sometimes where people fall down because they are not taught about things like how you deal with HMRC, how you do your marketing and what bookkeeping is when they are at school, or even in higher education settings. Groups like IPSE have a role to play here. We are actually just launching an incubator, which is a 12-month programme where we provide younger businesses with templates and guides and advice. We strengthen their business and their sales and marketing knowledge.

We provide tips about mental health. I think Michelle mentioned mental health earlier. It has been a big issue of late among self-employed people, particularly during the pandemic. We have caught data both before and since the pandemic. The last round of data was for the second half of last year. We have some new stuff, but I do not have that data yet. What we saw when we took the temperature in the second half of last year was that among young people 49% fewer of them reported having good or excellent mental health. Before the pandemic, quite a few of them said their mental health was good. It has really taken a downturn. That was reflected over all of the self-employed, but young people were among the group most impacted.

Business groups need to consider that sort of advice, as well as advice on, for example, if you are a photographer, where you can find training and upskill yourself in that. It is also about running the business. I think that what government and policymakers can do to help young people is to go back to some of the things we have touched on before, such as late payment. The Government have made moves on that. It is extremely

difficult, last year in particular, when there was a scarcity of work opportunities available. If you manage to find some work, you need to be paid for that work, otherwise you really are in trouble, so we need to sort out late payment. I am pleased that the Government are putting together a new compliance board for the prompt payment code. IPSE and, I believe, FSB will be on that board. That is a good step in the right direction.

In the creative industries, there is another problem. It is not just about late payment. It is something that we describe as no payment or no free work. We did a campaign around no free work. It is a problem that young people particularly suffer from; in fact, 75% of younger freelancers we have spoken to have been asked to complete work for free. In a survey we did with ComRes in 2019, 61% of those aged 16 to 34 had done unpaid work. The reason they give for that is that it is the industry norm and that is what happens. I am a photographer. A glossy magazine wants to use my photographs and I am told it is a great opportunity for me. Then it takes my intellectual property away. It makes lots of money, and the creative person at the end of that supply chain gets nothing. We would like to see a cultural change around that, and possibly government stepping in as well to make sure that when our young creative freelancers in this country are bubbling up with ideas and enthusiasm, we do not crush that by them hitting the big, bad world of business and basically being taken advantage of. We would like more protections in place around that.

There are a lot of pressures on the national curriculum. At IPSE, we would love to see courses on how you run a self-employed business: "This is what a tax return looks like. This is how you file accounts at Companies House." However, we are realistic. Everyone wants their own thing on the national curriculum, but not everyone is going to go down that route. Maybe more advice around personal finances would be a good start. That affects everybody. Just getting people to understand basically how to run money in, money out would be a good start. Those are a few thoughts we have had on that. Thank you very much for the question, Baroness Newlove.

Baroness Newlove: Thank you, Andy. Actually, I think there are some adults who would like training on how to set up a business and on HMRC. I am looking into that. I am not silly, but I think it is overcomplicated, and even more on digital. It will not let you go fast and forward. It is not just the young people. We need to look at another generation who have missed all that and need to be educated. That is just my add-on, Chair. Thank you very much, Andy. It has been interesting.

The Chair: Thank you very much indeed, Baroness Newlove and Andy, for that. We need for timing reasons to complete this session by 1 pm. I share that with colleagues, as we move on to Lord Storey. You are unmuted, Lord Storey.

Q64 **Lord Storey:** Sorry about that. That will be the legacy of Covid—mute/un-mute.

Thank you for this session. I have found it absolutely fascinating and some really important points have been put across. I very much agree with Mike that small businesses will be, or should be, at the heart of the recovery and are very important to the recovery.

My question is about skill gaps that small businesses face. You have actually in many ways talked about that. We have an immediate problem of youth unemployment. The Government have put in place various schemes. We have talked about Kickstart quite a lot in our various sessions. I was interested in the idea that the offer needs to be extended and what that actually means. I am slightly deviating, Chair, from my allotted "script".

Remember that this report will be published at the end of the year, so for small businesses and their huge importance to the recovery of the UK, and given the important issues that have been raised about self-employed people, what would be on your manifesto of things governments need to do to actually help and encourage small businesses? I add as a rider that a number of my friends and colleagues who run small businesses say to me, and I am always struck by this: "I'm struggling just to keep going. I'm struggling to keep my business on the road. I haven't got time to invest in various initiatives. That just takes more time out of me running my business." What would be on your list of things that we need to do to help small businesses?

Mike Cherry: Thank you, Lord Storey. To be succinct, there are two things on our agenda that would really help. There are precedents around national insurance holidays. We very much welcome the holiday that has now come in, for instance, for employers taking on new veterans. That also shows that whether it is the employment allowance, which is now £4,000 for small businesses to avail themselves of against their employers' national insurance, or indeed further holidays for taking on young people or others, there are options government should be looking at much more closely.

The other thing, which again is an up-front cost, is business rates. They are hugely draining on the businesses that have to pay them. As we all know, the business rate is paid out before you even make a pound of sale; it is anti-growth, subjective and no longer fit for the 21st century. We hope that pushing back the review will give the Government the time to fundamentally look at changing and reforming how we still manage to get £30 billion into the Government's coffers, but in a completely different way that does not disadvantage business in being an up-front cost.

Lord Storey: Thank you, Mike. Michelle?

Lord Baker of Dorking: There are two other Peers to ask questions. May I suggest that, if we are to finish by 1 pm, in future only one of the three should be asked to answer each of the questions, otherwise it will go on and on, well beyond 1 pm?

The Chair: Lord Baker, thank you very much indeed for that. I have

leeway of 10 minutes at 1 pm if we absolutely have to use it. Thank you very much for the advice. If people are as succinct as possible in responses that would be helpful. We have Lord Woolley and Lord Baker to go.

Lord Storey: Michelle?

Michelle Ovens: I will be very succinct. I have two things.

Lord Storey: You have been told.

Michelle Ovens: First, there has to be inclusivity of support. We know that there are various factors that influence whether you are accessing all the incredible level of support that is out there. I do not necessarily mean all the government financial support over Covid, but broad support, whether that is networks, peer-to-peer support or social capital. We know that ethnic minorities are disproportionately less likely to access those. We know that those with a disability are wildly disproportionately less likely to access them. Remember that is 20% of working age adults who are way more likely to be self-employed or have a small business. We think that is a massive gap. There is a huge opportunity if we can enable marginalised communities to access all the support that is available. That in itself could make a big difference.

The second thing is about recovery finance. Actually, this is probably picking up a point that Mike made a while ago. The recovery loan scheme is not really accessible to small businesses. The minimum amount is too high. There has been a big focus over Covid on financial support. We have to make sure that we do not fall off a cliff with that. There will be an ongoing process of recovery for small businesses. We are seeing some positive signs, but we need to think about what the options are, whether it is lending or other finance options, for small businesses going forward until we are well past this period of crisis.

Lord Storey: Thank you. Andy?

Andrew Chamberlain: Thank you, Lord Storey. I have a couple of quick things. There is a big problem with the tax system. There has been lots of talk about it. There is a feeling that self-employed people may not be paying as much tax as they should, yet self-employed people point out that in fact they pay lots of tax. There is a lot of confusion about how they pay tax. Making Tax Digital is coming in.

We could do with a fundamental review of the tax system as it impacts small business and the self-employed. We need to improve relations between our smallest businesses and HMRC. All the small businesses we speak to want to pay the right amount of tax. They just have a great deal of trouble working out what that is. If we could simplify the tax system and improve it, that would be a great help.

The other thing would be around employment status. There was a review by Matthew Taylor about four years ago of modern working practices in which it was recommended that we look at how we understand

employment status. At the moment, we have high-profile court cases with Uber, and last week we had Addison Lee, where a bunch of people who thought they were self-employed found out after a five-year court battle that they are not self-employed.

There is a feeling now that companies do not want to engage self-employed people because they are frightened of getting that decision wrong. It is a very confusing area, so we would like much more clarity around employment status so that we all understand and know when it is appropriate to engage someone on self-employed terms, and make sure that everyone is paying transparently and paying the right amount of tax. If we can get to that, we could really see self-employment take off and drive economic recovery.

Lord Storey: Thank you, Andy. Thank you, Chair.

The Chair: Shall we move on to Lord Woolley?

Q65 **Lord Woolley of Woodford:** Thank you very much. I am interested in linking my question with Baroness Newlove's and the area of entrepreneurs and education. There is a wonderful and, I would argue, fantastic opportunity if we get this right. I have a 15 year-old son, and he studies business at school. A lot of the business that he studies has little reality in what he understands, yet his generation is so entrepreneurially minded that I am blown away. He has what he calls his little side hustle buying and selling training shoes. Andy, if we get the link right, and if, as we come out of this awfulness, we can nurture a generation of young entrepreneurs, which we are doing on one level but it is not harnessed by the education system, what could we see?

Andrew Chamberlain: Thank you, Lord Woolley. I completely agree. It feels to me as if the new generation coming through is more entrepreneurial than ever before. Some of the heroes they look up to are perhaps the Zuckerbergs and the Elon Musks of this world. I am not part of that generation, so I am not really qualified.

Lord Woolley of Woodford: I am not sure it is those names; it is the YouTubers—another generation.

Andrew Chamberlain: Absolutely right. My finger is not on the pulse of what young people are aspiring to be. I am quite sure of that.

I think there is a view that entrepreneurship is somehow desirable and even, dare I say it, cool to young people. There is natural enthusiasm. My concern is that when they explore their ideas they will be hit with a barrage: "What's this from HMRC and what's all this admin that I don't understand? I had no idea where this was coming from. I've got no one to turn to, to help me with this, so perhaps I'll just give up on it before I really get going."

Groups like IPSE, as I said before, have a role to play. We would like to help people with their businesses to make their dreams become a reality. I think the Government do too. I think that they can show that they are

supporting these people with things such as action on late payment, action on no free work and action on universal credit. As I mentioned before, that is the safety net for people. When things go wrong, and things do go wrong in business, the safety net is now universal credit, and yet we have within universal credit this thing called the minimum income floor. It is only for self-employed people and makes universal credit much less generous if you are self-employed than if you are not self-employed and are a jobseeker in employment. I would like some of these public policies tweaked, rather than being a bit sceptical towards the self-employed, which is what I see at the moment, and saying, "Let's encourage entrepreneurship. Let's encourage people in self-employment. Let's give them the support that they need." We could be a much happier and wealthier society as a result.

Lord Woolley of Woodford: Thanks very much. I am happy to pivot to Lord Baker, given the time.

The Chair: Very many thanks for that, Lord Woolley.

Q66 **Lord Baker of Dorking:** I am only going to ask Mike Cherry questions. First, Mike, thank you for all that you do for small businesses. You are the best spokesman. You are the regular spokesman. The trouble is that the Government do not listen as much to you as they listen to the CBI. You represent a huge area of economic activity.

I want to touch on something about work experience, something that Lord Storey mentioned recently and Mike Hall represented earlier today. I think the Government look on work experience as a wonderful tap that industry should turn on, yet industry does the training rather than the state. For a small business or a medium-sized business employing less than 10, work experience is a cost to the company, as Lord Storey said. They are supposed to do 20% training one day a week. Somebody has to be delegated from a small staff to train that person. Is that not largely unrealistic, Mike?

Mike Cherry: Thank you for your kind words, Lord Baker. Yes, small businesses are the largest and most important part of our economy without getting the necessary support and recognition that they deserve. On work experience, that 20% is a huge burden to small businesses, particularly for a micro-business that could be five or six employees; one-fifth of the workforce would be out of work one day a week. Not only that, as we know, any work experience, placement or apprenticeship requires more support from the existing employees or the business owner. Indeed, it also requires those individuals—the other employees and the business owner—to cover off the 20% of work when that person is not in the business. It is a huge cost. It is a huge imposition.

One of the problems we have always faced is that training on the job is never accredited. I do not think any of us have actually got our heads around how we make sure that the transferable skills that are done on the job can be properly accredited because, as we know, people these days move jobs much more often than they used to. A job is no longer

really for life at all. People not only need to change career paths but to upskill during their career. Government needs to recognise that. It needs to recognise fundamentally, which comes back to a point I made earlier, that the capacity of small businesses to deliver more of what it wants, or what society needs, is much greater than the latest initiative that can be delivered by a large business, for instance.

Once we get that recognition and understanding in place, you get the support mechanisms in place and, alongside that, any funding that may be needed for the individual or for the business. Often, these days you do not have a local college next to the business. Therefore, helping the young person travel to where the provision is would be of benefit as well.

Lord Baker of Dorking: Thank you very much. Mike, one last question. You are a successful timber merchant and a small employer. Do you employ many untrained people at 16 or 18?

Mike Cherry: We would like to. We do not at the moment. We engaged with the T-level pilots. Although we are timber, our primary manufacturing side is supplying the hospitality industry, which as you all know has been absolutely shut, and, like many in the supply chain, we have not been able to get much support, apart from furlough. It has been challenging for us. We are engaged in Kickstart. My hope is that, once we have a person who is able to take that on, we can also offer an apprenticeship to an individual we take on through Kickstart. That is our goal. Let us hope that we can get back to trading first, like many thousands of other businesses.

Lord Baker of Dorking: The size of your business would allow just one Kickstart person who gets a living wage and you train them. Quite frankly, you take on people who have no training in timber or indeed metal, I assume.

Mike Cherry: Many small businesses take on an individual because of the aptitude of the individual. We have employed ex-offenders. We have employed young people. We have employed apprentices in the past. Like many small businesses, we are concerned with the individual, and giving them the opportunities.

Lord Baker of Dorking: Thank you very much, Mike.

The Chair: Lord Baker, thank you very much for that. It is a very important issue. I wonder if Michelle or Andy want to say anything in conclusion. Michelle, is there anything you want to add?

Michelle Ovens: No, I am happy to stop. I know we are running out of time.

The Chair: Andy?

Andrew Chamberlain: No, thank you, Lord Shipley. I am happy to end it there.

The Chair: Grand. Thank you all very much for that. That draws this evidence session to a conclusion.

On behalf of the committee, I thank our three witnesses for the huge contribution they have made in the evidence that we have heard. We are taking evidence through until the end of July. If there are issues you want to raise in coming weeks, please feel free to commit them to writing and send them in to the committee secretariat. On behalf of the whole committee, I thank you very much indeed for your time and your involvement with the committee.