

## Written evidence submitted by The Federation of Small Businesses (FSB)

The Federation of Small Businesses (FSB) welcomes the opportunity to respond to the National Audit Office's Value for money examination on developing workforce skills for a strong economy.

FSB is a non-profit making, grassroots and non-party political business organisation that represents 160,000 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, micro businesses and the self-employed.

In this document, we outline our views on the current challenges in developing workforce skills and how to improve the skills system, including:

- We welcome recent policy announcements about Level 3 qualifications and want to work with the Department for Education to ensure these are successful. However, there are concerning trends with the amount of young people and adults with Level 2 and below qualifications. It is important that these are addressed including through reversing current trends in apprenticeship starts at an intermediate level.
- The Government's incentive of £3,000 for all employers to hire an apprentice should be re-introduced to reverse the recent decline in SMEs taking on board an apprentice. This measure was introduced during the pandemic but should be maintained to enable SMEs to address the increased costs of hiring and training an apprentice.
- Additionally, we need to encourage more self-employed people to take part in training. The Government should encourage more people to train by offering tax breaks to self-employed who attend training to develop new skills, not just to refresh existing skills. They should also consider the nationwide expansion of Enterprising You, a training scheme for self-employed people currently being run in Greater Manchester.

Ensuring that small businesses have access to the skills they need is vital to economic growth. FSB's, [Small Business Index \(SBI\), Quarter 4, 2021](#) found that more than half (54%) of SMEs said they planned to grow their business in the next 12 months, a third (33%) said that a top barrier to achieving growth was finding appropriately skilled staff. FSB's, [SBI Q3, 2021](#) highlighted the recruitment challenges experienced by small firms with nearly one-quarter (23%) stating it "difficult to find individuals with the right skills in the area their business is located" and that over one in five have struggled to recruit because they "require individuals with a niche / specialist set of skills."

A lack of a forward-looking, holistic government labour market strategy has resulted in a lack of co-ordinated policy response to skill shortages. This is a pre-requisite to solving the difficulties we have with skills mismatches in the labour market. As is the need to ensure all people have the basic skills they require to move onto higher level qualifications and developing more specialist skills sets.

Small businesses expect that the education system provides current and future employees with basic numeracy, literacy and digital skills at a minimum. The more specific, technical skills are also vitally important and some recent policy announcements in this area are welcome. However, it is too soon to evaluate the success of these initiatives. FSB wants

Government to focus on the successful delivery of T-Levels, Skills Bootcamps and ensuring that a higher percentage of the population have Level 2 and Level 3 qualifications.

Reforming the apprenticeship system so that it works for SMEs is fundamental in achieving the latter point. Since the changes introduced in 2017, we have seen an increase in adults taking high level apprenticeships at large firms. In contrast, small and micro employers who tend to hire apprentices at Level 2 and 3 have not been taking on apprentices at the same rate.

### **Government role in workforce skills development**

Small businesses will invest time and money training staff in job-related skills but expect young people leaving education to have basic functional skills. It is a concern that businesses continue to highlight numeracy, literacy and core workplace skills, including digital skills, as lacking in young people. These are the skills with which young people need to be equipped to be successful in today's jobs market.

Beyond basic skills, FSB believes that the government needs to work in partnership with business and education/training providers to ensure that workforce skills development is effective. Government's role should be to enable and incentivise employers to train their current workforce to meet current and future skills needs.

Having skilled and experienced staff – and being skilled and experienced oneself – is crucial to running a successful, resilient and agile small business. Keeping our skills up to date and learning new ones is an indispensable part of growing a business.

We are pleased that the Government is investing in policies to strengthen technical education, improve lifelong learning, boost basic skills – including digital – and support local skills development. It is welcome that Government is broadly taking an employer-led approach to skills development. However, we believe that more can be done to make these policies more inclusive of small businesses and sole traders, helping them to upskill and satisfy their skills demands.

### **Trends with basic skills**

The focus of the Government should be on those who do not hold qualifications at level 3 or below. We welcome the focus in the [Levelling Up White Paper](#) on the need to improve the level of qualifications held in more deprived areas (page 193). The paper outlined that the more deprived areas tend to have more people without qualifications at Level 3 or below. The target outlined in the White Paper to have 80,000 more people completing courses in the lowest skilled areas is key for both their personal aspirations and for local businesses to have the skills they require to succeed.

These basic skills are essential to all forms of work and form the base for further, more technical training. It is also in lower skilled roles where the likelihood of automation is higher and subsequently a higher need for these people to retrain. For instance, [the ONS](#) found that professional occupations are the ones least likely to be automated while elementary occupations are the ones most likely to be automated.

There are an [increasing number](#) of children leaving school without Level 2 qualifications. For the 2019/20 academic year, 18.2% of 19 year olds were without these qualifications, this is

compared to 12.5% in 2014/15. The numbers achieving Level 3 has flatlined in this period. The attainment rate for 19 year olds went from 60.5% in 2014/15 to 60.2% in 2019/20.

Additionally, adult participation and achievements at a basic skill level have been dropping. For the 2021/22 academic year, adult (19+) [participation](#) in basic skills training (English, Maths, Digital) was at 289,540 compared to 348,680 in 2019/20. Total achievement rates in basic skills have dropped from 273,380 in 2016/17 to 192,260 in 2020/21. These numbers can in part be explained by the pandemic, but it is still concerning to see such a drop in numbers.

Since the introduction of the apprenticeship levy, [participation](#) in intermediate apprenticeships (equivalent of level 2) has dramatically dropped from 487,200 in 2016/17 compared to 185,400 in 2020/21. At the same time participation in Higher Apprenticeships (Level 4 or above) has dramatically increased from 60,800 to 207,900 in the same time period.

Ensuring all children leave education with at least Level 2 qualifications is fundamental for employers. It is highly concerning that we are going backwards in this regard. Equally, the amount of adults improving their basic skills and taking intermediate apprenticeships has seen a large decrease. These skills are fundamental to employment. Without ensuring we have the basics correct, individuals will struggle in the labour market, employers will struggle to succeed and the economy will suffer.

### **Government initiatives for level 3 and below qualifications**

There have been recent government initiatives in this area. This includes a forthcoming Schools White Paper that pledges to focus on improving literacy and numeracy. There has also been the introduction of free Level 3 training courses for adults currently without a qualification at that level. Access is due to be expanded to any adult in England earning under the National Living Wage annually, regardless of their prior qualification level. The introduction and subsequent expansion of Skills Bootcamps has also been announced.

While these initiatives are welcome, it is too early to fairly conclude on their effectiveness. At early stages, skills bootcamps have attracted high participation rates and interest from SMEs. An [early assessment](#) of Skills Bootcamps found that 76% of employers involved with the scheme were SMEs and it had positive outcomes for learners. On the other hand, ONS [data](#) suggests that the free Level 3 courses has not particularly boosted uptake but this is at a very early stage. We also welcome the roll-out of T-Levels, which we hope will bring higher prestige to level 3 technical qualifications. We want to work with DFE to ensure these programmes lead to positive outcomes for learners.

While such initiatives are welcome, there appears to be little focus on improving uptake in courses below Level 3 for adults. Reforms to the apprenticeship system are fundamental to ensuring that uptake of intermediate level apprenticeships increases.

SMEs tend to hire more apprenticeships at an intermediate and advanced level. Since the apprenticeship reforms in 2017, there has been a large drop off in SMEs hiring apprentices. In 2020/21, 63.9% of starts [were supported](#) by Apprenticeship Service Account (ASA) levy funds and 36.1% apprenticeship starts were at non-levy payers. This is [compared](#) to 2016/17 when 52.8% of apprenticeship starts were at SMEs.

Our 2019 report, [\*Fit for the Future: apprenticeship and small businesses\*](#) found that 87% of all apprenticeships offered by small firms are at Level 2 'Intermediate' (49%) and Level 3 'Advanced' (38%). 92% of apprenticeships offered by small firms are held by 16-24 year olds (including 47% of 16-18 year olds). Of those small businesses that have employed apprentices, many say they have hired from the following disadvantaged groups:

- Highest educational achievement GCSE Maths/English grade C or lower (30%)
- Long-term unemployed (9%)
- Ethnic minority background (9%)
- Mental health condition (7%)
- Returning to work after a career break (4%)
- Disability (4%)

Therefore, ensuring that the apprenticeship system works for small businesses is fundamental to boosting starts at intermediate and advanced apprenticeship levels as well as increasing participation from young people and disadvantaged groups.

Our research in 2019 also found that the accessibility and quality of training organisations, and the quality of their courses and communications, create major obstacles for smaller business engagement with apprenticeships, exacerbated by Government's funding policies. There needs to be effective government intervention to create a market-driven system. There should be a stable funding environment for good quality training and assessment provision that is easily accessible to smaller employers, as well as larger ones.

Small firms have welcomed Government interventions on co-investment and transfer of unspent levy funding to non-levy paying firms. Additionally, all non-levy-paying employers have now migrated to the Apprenticeship Service, which should resolve some of the issues around training provision. Ensuring that this service is easy for SMEs to understand is very important.

However, the Government should consider further action, including:

- Allowing more flexibility in the amount and structure of the off-the-job training required by different sectors. Most sectors have varying training needs and some occupations benefit from more practical learning than others. Different sectors should be able to identify and influence the amount of training required.
- Re-introducing the Government's incentive of £3,000 for all employers to hire an apprentice. This measure was introduced during the pandemic but should be maintained to enable SMEs to address the increased costs of hiring and training an apprentice.
- Improving the quality and availability of training provision for smaller businesses, especially where the most common apprenticeships levels utilised are Levels 2 and 3.

## **Future skills needs**

Policymakers' understanding of current skills needs is fairly well informed due to the amount of data available on skills gaps and vacancies. However, there is a lack understanding of

potential long-term skills needs and little strategic thinking on what skills young people will require when they finish education.

Despite clear evidence on the growing importance of 'soft' skills, digital skills and green skills to employers, little has changed in the school curriculum to reflect this. Instead, Ministers in recent years have been focused on 'knowledge' instead of 'skills' education. There has appeared to be little reflection on how the curriculum should be shaped for the needs of the future economy.

As more job activities become automated, 'soft' skills, which cannot yet be replicated by machines, are becoming more important. For instance, a report from the [World Economic Forum in 2020](#) found that the top skills that employers see as rising in prominence in the lead up to 2025 included critical thinking and analysis as well as problem-solving, and skills in self-management. A [2021 study from Kingston University](#), asked UK employers about the challenges they face to remain globally competitive over the next 10-20 years. The study, as many others also have, highlights problem-solving, communication and creativity among the top 10 core skills needed for a prosperous economy. As well as the fundamental skills of literacy, numeracy and digital, the growing importance of these 'softer' skills should be developed including through the curriculum from an early age.

This is not to downplay the importance of technical skills – we have large skills shortages in STEM related careers, occupations that are vital to becoming an innovative country. In a survey we conducted in 2019, nearly two in five (39%) of SMEs considered technical skills as being the most important for future growth. Technical skills training is also the most common type of training provided by employers, with almost half (49%) of small firms organising this training for their staff, and two in five (40%) receiving training of this type themselves.

Encouraging and motivating even more SME employers to organise this for their staff and to utilise programmes such as skills bootcamps as well as taking up the offer of a free Level 3 training course (where applicable) should be the Government's priority.

Additionally, there is clear evidence of a problem with training among the self-employed who often find themselves so stretched that extra time away from the business can seem more like a burden than a benefit. The Government should encourage more people to train by offering tax breaks to self-employed who attend training to develop new skills, not just to refresh existing skills.

The Government should also consider the nationwide expansion of [Enterprising You](#), which is a training scheme for self-employed people currently being run in Greater Manchester. A pilot of this scheme was announced in the [Autumn Budget 2018](#), which saw FSB work with the Greater Manchester Combined Authority. Following the successful pilot, the year one evaluation of which showed 71% of participants increased their profitability. The scheme should form the basis of a national training offer.

We welcome the recent announcement of a Unit for Future Skills, which we hope will bring clarity and understanding to future skills needs. However, it's crucial that these findings are then translated into changes in the education system reflecting future skills needs. We also hope that this leads to a cross-Government approach to tackling issues related to skills shortages in the short, medium and long term.

September 2022