

# Access all areas: People

Skills shortage: How the government can work with small businesses to build the workforce of the future.



# Access to people

Small businesses are the backbone of the UK economy, and the backbone of each business is its people. The UK’s 5.6 million private-sector businesses account for three-fifths of total employment. For founders, access to people with the right talents is integral to their success. For consumers, better employees and contractors deliver better products and services. For us all, more skilled employees means higher productivity and better living standards.

The UK, like all countries, needs talent. But on a most basic level, it lacks workers, with the last Office for National Statistics (ONS) release estimating that there are 1.26 million vacancies.<sup>1</sup> This isn’t going anywhere – Enterprise Nation’s latest barometer shows that 46% of business owners who are in the starting-up stage are either confident of hiring or making their first hire.<sup>2</sup>

This isn’t just a numbers game. Potential and current employees often lack the skills that business owners need: 90% of employers think school leavers aren’t prepared for employment. And 66% of scale-up CEOs rate ‘access to talent’ as very important or vital to their growth, with one-third rating it as their top priority.<sup>3</sup> And it isn’t just employers complaining: two-thirds of parents don’t believe the education system is preparing children for the workplace.<sup>4</sup>

Estimated number of job vacancies in the United Kingdom from June 2001 to August 2022 (ONS)



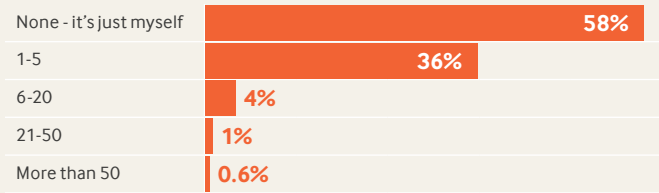
# The challenge for small businesses

On a practical level, recruitment is much harder for small business owners. They often need people with adaptable skills who can work across a number of roles, learning on the job. When a critical member of a five-person team leaves, it’s a gaping hole that the business must fill with someone who has the right experience, and who can operate within the existing chemistry of a smaller team.

As things stand, the landscape for small businesses is complicated. Even schemes like the local skills improvement plans (LSIPs) – which aim to have employer representative bodies (ERBs) collaborate with providers of technical education or training to make sure local training better reflects the local employment opportunities – will struggle to engage smaller businesses. In practice, it will be challenging to ensure small local businesses – from plumbers and café owners to tech start-ups – engage with these processes. And indeed measure success.

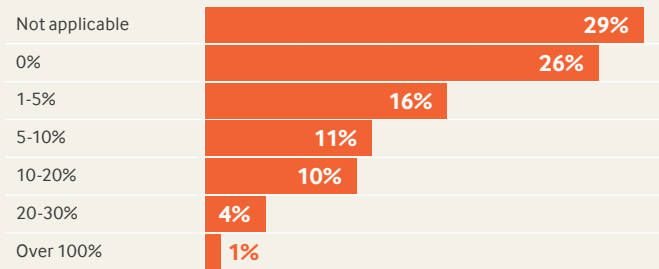
But as the latest Enterprise Nation data shows (see charts), small businesses want to hire to grow their businesses. It’s imperative that their success, and by extension the success of the UK, isn’t held back by a lack of access to talent.

## How many people have you hired/do you expect to hire this year?



Source: Enterprise Nation/Mastercard Strive

## How much do you think staff costs will go up by this year?



Source: Enterprise Nation/Mastercard Strive

1. Vacancies and jobs in the UK: September 2022, ONS  
2. Enterprise Nation Q2 Barometer  
3. ScaleUp Annual Review 2021, Scale Up Institute  
4. Memon, A. Yorkshire Post



# Access to training

With technological innovations set to disrupt jobs, the workforce will need to be increasingly agile. In 2020, the World Economic Forum (WEF) forecast that over the next five years, 50% of all workers will need reskilling.<sup>5</sup>

Employees understand this. When asked to look ahead to 2030, PwC finds that an increasing number of people are worried about automation putting jobs at risk, with 74% ready to learn new skills or retrain to remain employable in the future, and 60% thinking 'few people will have stable, long-term employment in the future'.<sup>6</sup>

Predicting the future is a fool's game. However, it's increasingly clear that with the rapid pace of artificial intelligence (AI), many tasks and jobs will become redundant. (Just consider the proven use cases of GPT-3, an AI model that can generate human-like text.) This doesn't mean humans will be unemployable, but as Deloitte's *Talent for Survival* report states: "this vision presupposes that we can educate, train, recruit and retain a new cadre of highly adaptable workers, and reskill existing generations, so that they can flourish."<sup>7</sup>

McKinsey calculates that for UK employers, reskilling would yield positive economic returns in about three-quarters of cases. Its analysis also reveals that if workers are to realise the full benefits of reskilling over the next decade, more than 90% of the UK workforce will need to be retrained.<sup>8</sup>

But we aren't ready – in fact, we're falling behind. Since 2005, UK employers' investment in training has fallen by 28% in real terms,<sup>9</sup> dropping from £2,139 to £1,530 a year. Across the EU, business investment in training per employee is double that of the UK. We won't be able to turn this around unless we have solutions that make sure smaller businesses without HR departments have the incentives to provide appropriate training for their staff.

A job for life is a thing of the past. While the COVID-19 pandemic reduced the number of people who are self-employed, that figure still stands at 4.25 million<sup>10</sup>, and the gig economy workforce has trebled in five years to 4.5 million in England and Wales.<sup>11</sup> But self-employed people aren't able to benefit from the same tax breaks as employees. As such, we should remove the barriers that prevent people from funding training to learn new skills. While employer-funded, work-related training is tax-deductible, if a self-employed graphic designer, for example, wanted to expand her skillset by taking a digital marketing course, she wouldn't be able to benefit from a similar tax break. She should be able to, and in 21 out of 30 OECD countries she would.

5. The Global Risks Report 2020, WEF

6. Workforce of the future, PwC

7. Talent for Survival, Deloitte

8. The Economic Case for Reskilling in the UK, McKinsey

9. UK Risks 'Sleepwalking into Skills Stagnation', FT

10. Statista

11. Gig Economy Workforce Hits 4.5m in England and Wales, FT



There are many private-sector schemes aiming to support training – often for free. Just by way of example, Enterprise Nation works on programmes with Mastercard,<sup>12</sup> Currys Business, HSBC and Intuit QuickBooks,<sup>13</sup> Vodafone,<sup>14</sup> Amazon,<sup>15</sup> Uber,<sup>16</sup> Adobe,<sup>17</sup> Meta,<sup>18</sup> TSB and Aviva,<sup>19</sup> and Santander.<sup>20</sup>

Rather than crowd out the private sector, the government should take an active role in supporting effective interventions – many of which would be unsuccessful without the local knowledge/circumstance or individuals involved in the project. As such, building on the work of the Business Basics programme, the government should work with the grain of private-sector interventions to provide financial support to help design programmes so they can be monitored to achieve high academic standards. If interventions are shown to work particularly well, they could be expanded to provide further support. Over time, this would help build a deep bank of knowledge of what works and what doesn't, without the need for the government to fund large projects based on weak evidence.

12. Strive

13. StartUp UK

14. business.connected

15. Small Business Accelerator

16. Empowering Journeys

17. Lunch and Learn

18. #SheMeansBusiness

19. Plan it with Purpose

20. Santander X UK Awards



# Access to apprenticeships

Apprenticeships have failed to live up to their early promise. Critically, they aren't delivering for young people – the latest data shows that in the first three months of the 2021/2022 academic year, only 157,400 people aged under 24 started apprenticeships. That's compared with 175,500 during the same period in 2018/2019.<sup>21</sup>

One way the government has tried to incentivise more training is through the Apprenticeship Levy, which is paid at a rate of 0.5% of an employer's annual pay bill, by all employers with a yearly pay bill of more than £3 million. However, research shows that fewer than one-third of Levy-paying employers say it has led them to increase the amount they spend on training. This is down from 45% in July 2017, showing confidence in the Levy has dwindled since it was introduced.<sup>22</sup>

According to the Chartered Institute of Personnel and Development (CIPD): "There's also concern that the research shows the design of the current Levy is incentivising employers to use their funds in counterproductive ways, with a fifth of employers surveyed saying they use their Levy money on training which would've happened anyway, to accredit existing skills, or that it has directed funds away from other forms of more appropriate training."<sup>23</sup>

Apprenticeships in all age groups have fallen considerably despite the Apprenticeship Levy. To increase uptake, the government should widen the scope to include other forms of accredited training. Consequently, as suggested by others – including the British Retail Consortium, CIPD, and the Learning and Work Institute – the Levy should be reformed into a broader Skills Levy and better focused on younger people.<sup>24</sup>

And while there won't be many companies taking up the Levy, those Levy-payers who want to should be able to transfer more than 25% of their funds to smaller companies down their supply chain. TechUK has suggested 80%.<sup>25</sup> Small firms would also benefit from a platform they could use to search for relevant apprentices, as the cost of finding these workers is too prohibitive.

21. Apprenticeships and Traineeships, Gov.uk  
22. Skills Development in the UK Workplace, CIPD  
23. *ibid.*

24. Skills for Every Young Person, House of Lords Youth Unemployment Committee

25. Future of Work, Tech UK







# Access to enterprise education

There is a major untapped opportunity to equip young people with entrepreneurial skills. This isn't just about starting a business – although over half (51%) of young people in the UK have thought about starting (or already have started) one<sup>26</sup> – but about developing enterprising skills that employers want and employees favour themselves.

There has been a lot of chopping and changing in the education system, with many people hoping that the new government will provide some stability. As such, the best approach might be to focus on embedding and making a success of current policies like T Levels; the importance of good careers advice; and prioritising the ambitions of the Gatsby careers benchmarks (see below).

## The eight Gatsby benchmarks of good career guidance

- 1 A stable careers programme
- 2 Learning from career and labour market information
- 3 Addressing the needs of each pupil
- 4 Linking curriculum learning to careers
- 5 Encounters with employers and employees
- 6 Experiences of workplaces
- 7 Encounters with further and higher education

Nevertheless, within the current system there are opportunities for reform. First, enterprise/ entrepreneurship education should be embedded across the curriculum. This isn't about making more work for teachers, but integrating it into existing subjects – starting with introductions to basic concepts at younger ages, and developing enterprise opportunities among older year groups. To achieve this, England needs a specific entrepreneurship education strategy, as many other European countries have already.

Second, we need to give universities the right incentives to make sure they aren't delivering enterprise education in silos (such as business schools) that not all students can access. Many universities still fail to prepare their students for the modern workplace. For example, students who study subjects like fashion, who are highly likely to need enterprise skills after they graduate, are often not getting the same level of support as those students based in business schools who, ironically, are much less likely to need the same skillset.

# Access to talent

Immigrants are behind many of the UK's most innovative companies. While just 14% of UK residents are born outside the country, 49% of the UK's 100 fastest-growing start-ups and 11 of our 16 unicorns (private start-up companies valued at over US \$1 billion) had at least one foreign-born co-founder.<sup>27</sup>

But it isn't just about founders – from the very smallest to the very largest, many of Britain's businesses rely on foreign talent. In fact, over a quarter of small employers already employ EEA workers (not including Republic of Ireland), and 11% employ non-EEA migrants.<sup>28</sup>

Most small business owners don't know the first thing about how to employ someone from overseas. Even large businesses with scores of HR managers can struggle to navigate the intricacies, and so need to rely on outside legal advice to bring in talent.

And while many small businesses can get by employing only domestic talent, a significant minority, particularly the most ambitious, reach a point where they need foreign talent to grow. Before the end of free movement, this was less of a problem – following Brexit, the pool of easily employable talent has shrunk dramatically.

To its credit, the last government tried to liberalise immigration – at least for highly skilled people. Perhaps the most positive move was reintroducing a post-study work visa, which gives immigrants permission to stay in the UK for at least two years after successfully completing studies at a UK university. That government also brought in a number of visa routes, including most recently the Scale-up Worker visa and the High Potential Individual (HPI) visa. But the current government needs to do more to make sure that these and other routes work for businesses of all sizes.

The first thing a small business owner dealing with the immigration system for the first time will notice is the complexity. The second thing is the cost.

Some complexity is inevitable. After all, the dozens of different routes are designed to attract different groups of immigrants based on the unique benefits they bring to the UK, or the gaps in skills in our domestic workforce. However, the GOV.UK website does a bad job of explaining which would be the most obvious options for employers and immigrants to consider. This means that routes that may be more suitable are overlooked.

For example, a business owner looking to temporarily employ a young person from Australia for a year or two may be better off guiding the potential employee towards a UK Ancestry visa (if applicable) or using the Youth Mobility Scheme visa, rather than going through the ordeal and cost of applying for a Tier 2 sponsor licence for the business.

As with so many areas of policy, the government should offer better visa guidance through the GOV.UK website, a separate landing page, or a chatbot that can guide employers and employees based on their circumstances. There are trade-offs for both with the various visas, but currently there is no way for business owners to easily evaluate what's on offer without investing a lot of time and money.

The cost of visas is the biggest impediment to employing immigrants. Companies must pay:

- for a sponsor licence to employ non-UK nationals – with fees ranging from £536 to £1,476 depending on the employer's size and the type of visa
- a visa application fee
- an annual health surcharge for the employee and their dependants (usually £624 per year)

Often, there's also an ongoing immigration skills charge (£364 for smaller companies, £1,000 for medium and larger companies).

The cost has increased over time, with some visas going up by almost 500% over the past 10 years. In a number of cases, the Home Office makes the equivalent of 800% profit on some applications.<sup>29</sup> This isn't competitive, with fees often more than double what the visa would cost in Australia, around seven times as much as in France, and around 30 times as much as in Canada.<sup>30</sup>

When asked, nearly half of small business owners said they wouldn't be able to pay the current overall small business sponsorship costs for a Tier 2 visa, while a quarter say they can only afford under £1,000 in sponsorship costs.<sup>31</sup> The Home Office should reduce fees for all businesses to make sure these firms can attract the best and brightest.

Obviously, it's easier for small business owners if the migrant has their own visa. It's often the migrant's preference too, as it means they aren't tied to a particular job. That's one reason the new High Potential Individual (HPI) visa was created. It lets graduates from the world's 'top global universities' come to the UK without a job offer.

27. Job Creators, The Entrepreneurs Network  
28. A World of Talent, FSB

29. Managing Migration After Brexit, Institute for Government  
30. Ibid.  
31. A World of Talent, FSB A World of Talent, FSB  
32. True Potential, The Entrepreneurs Network



As a result, the HPI visa has the potential to be a world-beating visa, giving individuals the flexibility to work where they want. However, it isn't as focused on letting in the world's top talent as it could be. Currently, the qualifying list of universities is defined as a university which appears on at least two of three internationally recognised rankings of universities: namely, the Times Higher Education World University Rankings, QS World University Rankings, or the Academic Ranking of World Universities.

While these lists do a great job of measuring research output, the number of Nobel Laureates, and the quality of facilities, they're weak predictors of how the graduate labour market performs. The closest we get with these lists is QS asking employers what they think of each university.

This means that many of the graduates from the world's best universities aren't able to come to the UK. We're missing out on people who have graduated from the best business schools worldwide, from America's prestigious liberal arts colleges, and – most importantly – from the Indian Institutes of Technology, whose graduates have helped build Silicon Valley from nothing and now increasingly are the CEOs of its tech giants.

Currently, graduates from most of the top-25 global universities as measured by average earnings are not eligible for the visa. The government should extend the HPI visa to the world's best graduates. One proposed methodology would be to use Glassdoor data to identify how the graduate labour market is performing,<sup>32</sup> as the economist Jason Sockin recently undertook.



32. True Potential, The Entrepreneurs Network

# Recommendations

- Allow self-employed people to benefit from the same tax breaks as employees.
- Widen the scope of training tax breaks to include other forms of accredited training.
- Allow employers that pay the Apprenticeship Levy to transfer even more of their funds to smaller companies down their supply chain, or replace the Apprenticeship Levy with a Skills Levy.
- Embed enterprise education across the curriculum.
- Make sure universities have the right incentives to avoid delivering enterprise education in silos (such as business schools) that not all students can access.
- Offer better visa guidance through the GOV.UK website, a separate landing page, or a chatbot that can guide employers and employees based on their circumstances.
- Reduce the cost of visas.
- Extend the High Potential Individual (HPI) visa to the world's best graduates.

# Concluding remarks

Historically, the productivity of the UK's workforce has grown by around 2% per year. But since the 2008/2009 recession, it has stagnated. While there are many reasons and potential solutions, one lever open to the government is boosting workers' skill levels.

Whether through upskilling the domestic workforce or attracting talent from beyond our shores, it's time we took seriously the potential that human capital has to transform the country's fortunes.



# Acknowledgements

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Enterprise Nation is the UK’s leading small business network and business support provider delivering support to more than 50,000 small businesses every month. Its aim is to help people turn their good ideas into great businesses – through expert advice (including a comprehensive resources library), events, acceleration support and networking.

Enterprise Nation was founded in 2005 by British entrepreneur Emma Jones CBE, also co-founder of national enterprise campaign StartUp Britain. She is author of best-selling business books including Spare Room Startup, Working 5 to 9, Go Global, Start a Business for £99 and the StartUp Kit. She is a frequently called-on and regular media commentator on a range of issues which affect the UK’s growing number of SMEs. In 2018 FTSE 100 entrepreneur and HomeServe founder Richard Harpin invested in Enterprise Nation with the aim of creating a ‘more entrepreneurial Britain’.

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