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Pwyllgor yr Economi, Masnach a Materion Gwledig

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Welsh Parliament

Economy, Trade, and Rural Affairs Committee

Inquiry: Apprenticeship pathways

Ref: AP07

Evidence from: Federation of Small Businesses Wales (FSB)



Apprenticeships Pathways – Written Evidence

Senedd Economy, Trade, and Rural Affairs Committee

FSB Wales

January 2025

About FSB

FSB Wales is the authoritative voice of businesses in Wales. It campaigns for a better social, political, and economic environment in which to work and do business. With a strong grassroots structure, a Wales Policy Unit, and dedicated Welsh staff to deal with Welsh institutions, media and politicians, FSB Wales makes its members' voices heard at the heart of the decision-making process.

Introduction

There is considerable demand for skilled employees, particularly those linked to occupations, including trade occupations. This is what the apprenticeship route delivers for SMEs and that is why it is generally something that is supported by SMEs. We know from our research that the biggest barriers employers face to recruiting staff relate to a lack of experience, a lack of relevant qualifications and an inability to find people with the right attitude. The apprenticeship route is helpful because it removes many of these barriers over time and allows an individual to learn 'on the job'.

Skills gaps are a persistent top three issue for SMEs and have been in our surveys over the last 5 years – given the wider pressures at play over that period of pandemic and economic stability this is significant. Similarly, the need to match skills provision to those gaps has a significant consequence for the economy and for learners' opportunities, so the move to a more institutional architecture is welcome.

SMEs are 99.3% of businesses in Wales, providing for 62% of private sector employment, so success in the skills system in its economic aims will depend on a system that works for SMEs.

FSB released a report written in collaboration with CIPD on 'A Skills-led Economy for Wales'.¹ This evidence mainly draws on our findings in research for that report.

¹ <https://www.fsb.org.uk/resource-report/a-skills-led-economy-for-wales.html>

- **Pathways between apprenticeship levels: The extent to which there are challenges in mapping out career routes through the different apprenticeship levels, such as from a junior apprenticeship to a degree apprenticeship. Whether this is more difficult in some careers/sectors than others.**
- **Economy: The extent to which apprenticeship pathways support the needs of Welsh businesses and contribute to filling skills gaps in the Welsh economy.**
- **The Welsh Government's role: How policies support apprenticeship pathways and any barriers that need addressing in that regard. The role of the Welsh Government, Regional Skills Partnerships and other stakeholders in identifying and communicating economic and skills needs to inform apprenticeship frameworks and the delivery of qualifications.**

Our report 'A Skills-Led Economy for Wales' written in partnership with CIPD conducted a series of interviews to identify issues around skills and impact on economy.

Pressures on SMEs are that they are time poor, can lack HR support to deal with myriad issues they need in their jobs, and are often left to navigate complex skills system alone. Success in bringing skills system to them will be key to the 250,000 small businesses success in Wales, and to learners' opportunities, as well as ensuring that our learning priorities are the right ones for our local economies and communities. Support for employers to build their skills for themselves and within their businesses is also important.

As such, having Medr as a central point of contact to simplify the system over which it has regulatory oversight, and also with a remit to serving the economy, is an important and necessary first step. It can tie together the needs of skills:

- a) to economic growth across Wales on one hand, and
- b) in helping small businesses to grow building increasing **opportunities for learners**, employees and employers
- c) Shaping the system so that learning and training benefits learners in the world of work and provides skills pipelines that works for SMEs.

As such, it is important that the strategic priorities identified are implemented and geared toward small businesses and that Medr includes a **Medr small business plan** that shapes to SME needs Medr's aims around

- its own and partners' engagement with small business
- of providing an evidence base and data collection for action, and

- for shaping how partners work around this aim.

Small business needs and pressures are distinct and are a key element in success in this area, both in terms of bringing success in learning across the work life cycle, but also in building skills into the economic vision, in building our communities capacities and capabilities across the SME communities.

Small businesses typically find navigating the skills and training system more difficult than larger firms. For those that don't invest in external training a lack of awareness of the availability of provision as well as the benefits of investing are key barriers to overcome. FSB Wales has continuously advocated for better alignment between skills support and business support that could help overcome obstacles alongside the increased availability of more suitable training opportunities, that are bespoke and flexible. The aims set out in the strategies list of priorities acknowledges this and through Medr the potential to develop a structured approach that provides a central knowledgeable contact point to work with matching skills with SMEs.

We would welcome a small business plan of action, to include measures and benchmarks for SME engagement with the tertiary system. For example, the percentage of apprenticeships for smaller firms are far lower than larger firms – while this gap would not be expected to close completely, it is important to have targets for growth. Such targets on skills provision (e.g., apprenticeships, placements) must provide targets and contracts for provision within different size businesses, split from micro to small and medium. This would ensure a better distribution of skills by business, but also by geographical location and better serves rural areas. It is to be noted that some areas of Wales are more dependent on SMEs (including rural and predominantly Welsh speaking areas) so ensuring that these opportunities are available, promoted and supported are vital in providing learner opportunities equally across Wales.

FSB is concerned over the lack of detail regarding applied procedure through specific KPI's to the individual business cases for each strategy and how Medr expects to track their implementation and success, ensuring that the needs of business are continuously met. We have also noted that no assessment has been made on how the working relationship with Welsh Government will be formally established or navigated to the extent that it guarantees Medr the ability to feed into the policy agenda in Wales. It will be important for Medr to both influence and engage with Welsh Governments Mission (s) for Growth programme and with UK Governments Industrial Strategy when it is released in the Spring, to ensure that there is alignment between the vision government(s) have on the need for investing in new and existing skill sets as well as drawing on Medr capabilities to deliver on needed research and development on how the economy can be proactive rather than reactive to the needs of the economy and businesses.

Medr should:

- **Use its role as an arm's length and institution with clear autonomy as an opportunity to developing an SME focused strategy with a**

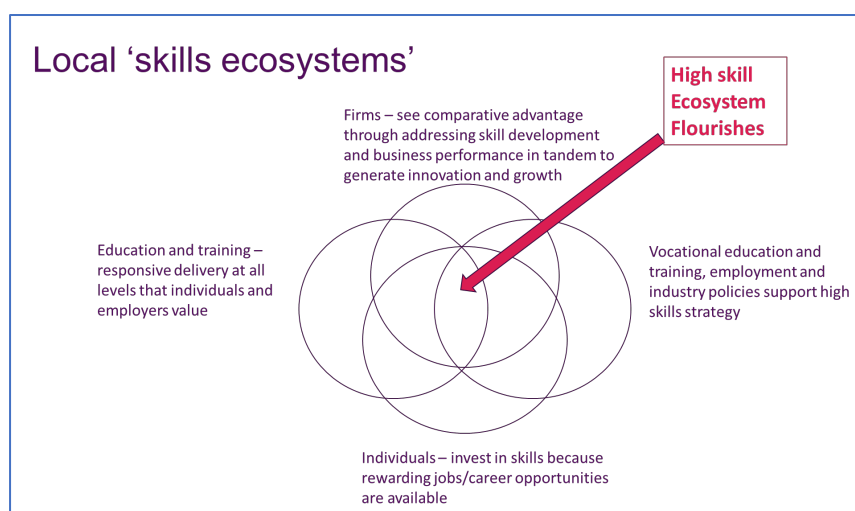
mission to skills-based growth, and to articulate the value to employers within the system.

Medr should provide a central hub for research and analysis, helping SMEs understand the skills gaps they face in the short-term, while also commissioning research to the same ends over the long term.

Medr is a prerequisite for, and has great potential in, addressing structural dilemmas such as anticipating skill requirements and adapting vocational education and training to address the evolving needs of the labour market.

Through our research conducted in collaboration with CIPD, we can point to clear experiences of opportunity costs – of roads that firms have not been able to travel toward growth – due to them being unable to access the skills necessary. Interviewees’ experiences are of being unable to access skilled staff needed for jobs necessary for their firm to grow. There are latent opportunities for growth that can be encouraged, developed, and harnessed to grow the Welsh economy from its foundation of embedded small business. As OECD analysis suggests, bringing Wales closer to best practice on establishing these links could lead to a significant boost in growth and productivity.

Our recent Skills Report with CIPD ‘*A Skills-Led Economy for Wales: Growing SMEs through Skills Development*’² identifies the importance of this coherence and how different parts of the economy and skills system are mutually reinforcing:



As such, the establishment of Medr is important mechanism to address these mutually reinforcing needs of the skills ecosystem.

Small firms cannot do this by themselves. This calls for effective institutional guidance and steering. Small businesses would welcome a role in such a project, indeed, FSB’s own research from 2019 found that one third (33%) of small businesses engaged with schools and/or colleges. But this figure had nearly halved to 17 per cent in 2022. Our research suggests this downward trend is the

² <https://www.fsb.org.uk/resource-report/a-skills-led-economy-for-wales.html>

opposite of SME desires, which shows a desire for an increase in engagement with educational institutions.

Therefore, current priorities need to aid nimble architecture that is easier to access and respond to needs. This in turn will provide better opportunities for learners, more relevant skills development, and more work available through skills and learning, while better matching skills to SME needs.

Focusing on building talent pipelines **via links with schools, colleges and universities or through offering structured apprenticeship pathways into businesses** will give confidence to SMEs and reaffirm the need for a more cohesive approach to applying much needed solutions to skills gaps in the economy through partnership with SMEs. We have recorded through our own research of SMEs changing their recruitment practices to reach broader talent pools, reviewing the pay and benefit packages to attract and retain staff, and creating a positive workplace culture. These examples of innovative approaches to tackling skills and people challenges, highlights the opportunity to find ways to scale and spread good practices among the wider small business community.

However, as noted previously, a clear small business plan on addressing the sector need and how these needs area addressed coherently and consistently across the system will be needed.

The key lesson from our research work in interviewing SMEs across different sectors is that where there has been good practice it has been ad-hoc, dependent on links within the skills system, and so many have struggled to be able to engage with the skills system to address their needs. Many felt isolated in doing so themselves and had to look across several institutions (difficult for time poor employees) and many had faced such difficulties as to not engage further (and of course would be less likely to do so in the future. There were pockets of good practice and excellent collaboration, but the main opportunities that Medr provide is to ensure that happens in a more structured basis, with a focus on support to help SME employers navigate the system and on outreach on the opportunities to work with them to build their businesses.

We found that many businesses we interviewed offered workplace training to their employees who expressed a preference for on-the-job rather than external training. This was because many felt that external training was not relevant, or sufficiently tailored to their organisations, or that it was too costly, while other organisations reported geographic constraints in accessing training that meets needs. It also allowed them to keep learners up to date on the sector needs more nimbly, and brought workers into the ethos of the organisation, facilitating promotion and progression on terms that helped their bespoke business ethos and needs.

For firms who did not offer apprenticeships there were many of the same challenges. Alongside a lack of time and capacity to mentor, support and develop apprentices. There was also a general lack of awareness of availability of training opportunities and confusion about how to navigate what was seen as a complex and fragmented system. It should be noted that there are successful and effective examples of initiatives promoting greater engagement between

business and education, but we need to learn from successful, best-practice models already in operation across Wales. Often, good practice is happening in fragmented pockets, and it is important that we showcase and share this across the system, which hopefully new structures such as Medr can help support.

Our recommendations were that **measures for success**, such as in the national indicators, needed to better align to clear milestones of a 'missing middle' approach of growing smaller firms to provide for sustainable growth, with skills access being a core part of this.

- Targets on skills provision (e.g., apprenticeships, placements) must also provide targets and contracts for provision within different size businesses, split from micro to small and medium. This would ensure a better distribution of skills by business, but also by geographical location and better serves rural areas.
- The success of the SME skills based economic mission and the health of our economy is 'missing middle charting' of how many businesses are moving up through different bands of number of employees over time.
- Greater consistency on the understanding, measurement and tracking and trends of skills gaps among Welsh SMEs with targeted and mechanisms for clear strategies to address those gaps.
- The new Medr body should operate in line with best practices for arm's-length institutions, serving as a trusted central point of contact and engagement, and an independent evidence base to support decision-makers across the system.
- Medr should provide a central hub for research and analysis for understanding the skills gaps SMEs face.
- Multiyear budgets should help ensure the system has this research data in development to build the systemic capacity. This data should then be openly available and shared with all decision-makers within the system (especially RSPs) to ensure decision making is effective and based on strong and independent evidence base.

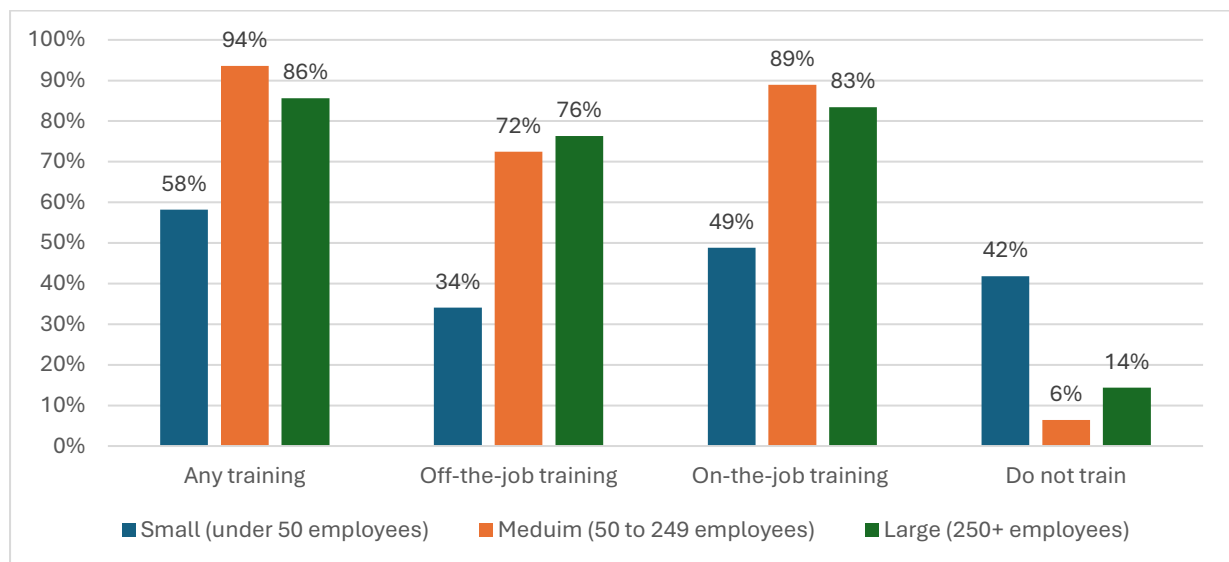
Medr should explore and develop a model that better links an economic growth lens alongside a social policy lens which mutually reinforce each other. This links to ensuring the best capacity and capabilities-based growth approach that serves employers, learners and provides better outcomes for providers. This should look at international best practice and look to SME-focused 'think small first' agenda, acknowledging that this is the area with the most latent potential for growth.

- **Employers: The engagement of employers in facilitating these pathways and attracting apprentices. Is specific support needed for micro, and small and medium enterprises (SMEs) to engage with the apprenticeship programme.**
- **Information about apprenticeships: Good practice between careers services, schools, colleges and employers in terms of promoting apprenticeships and the provision of meaningful work experience.**

Engagement with the apprenticeship system varies by size of business with small firms (1 to 49 employees), less likely to host apprenticeships in comparison with medium sized enterprise, with figures of 8% and 26% respectively.

Smaller employers typically face greater barriers to training participation than larger firms. These include, but are not limited to, informational barriers such as lack of knowledge about the availability of training opportunities, lack of understanding of its potential benefits, and financial barriers with small organisations unable to achieve the economies of scale enjoyed by larger businesses. Smaller firms are also more likely to be focused on the short-term goals, on business survival and 'getting the job done' and are therefore less likely to make longer term strategic investments in developing their people.

On-the job and off-the job training in the last 12 months by business size in Wales, 2022



Source: Employers Skills Survey 2022

It should be noted that despite the barriers, a majority (58%) do invest in training. However, small firms will also lack capacity to identify what skills challenge they have, and so further support could provide for better training. The graph above shows that they are much less likely to report that they have workers who lack

key skills (skill gaps) or that they are struggling to fill vacancies due to a shortage of sufficiently skilled applicants (skill shortage).

Yet, we also know that many smaller organisations are often blind to the skills challenges facing their organisations and even when they do identify a skills challenge, they often lack the internal capacity to put into place practices to develop their employees' skills because of poor management or a lack of a HR function.

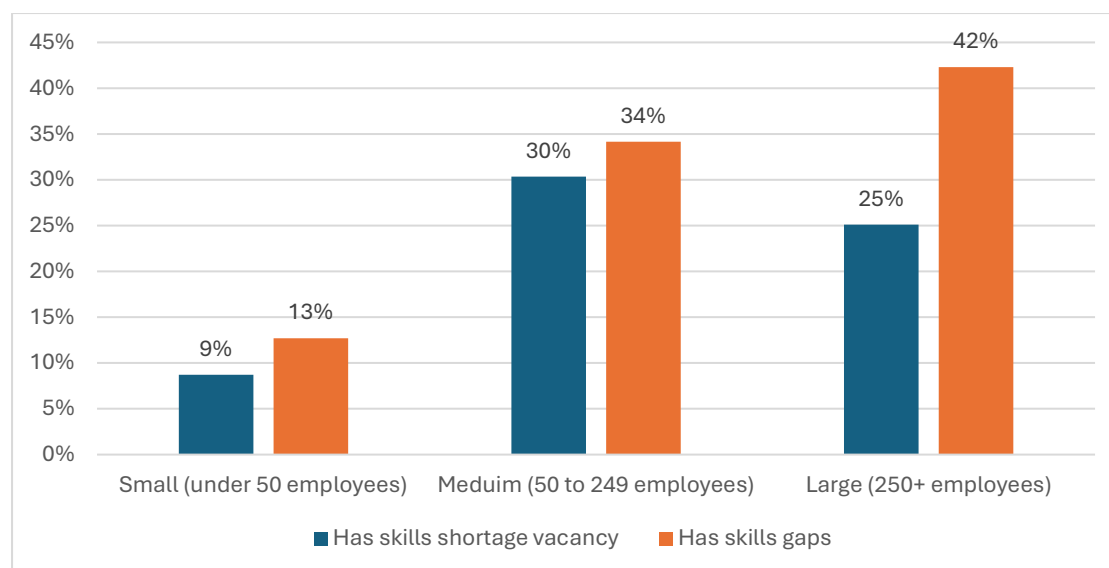
Training plans and budgets can help small firms to anticipate and meet their training needs. FSB surveys show that most small businesses do not have these in place. Only 17 per cent of small business employers have a training budget; 21 per cent have a relationship with a training provider, and 31 per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

About half of small business employers (51%) indicate that a training plan is not necessary for their business. They report that either it is not a business priority (29%), or that their focus is on immediate recruitment needs (25%), with some overlap between the two. For the rest, the top reasons are that they are unclear of their future training needs (31%), it takes too much time (23%), or it is too expensive (18%). Only five per cent say it is too difficult to carry out.³

Evidence also suggest that small employers are also less likely to seek advice on skills or recruitment challenges. For instance, the 2021 Small Business Survey showed that for the minority of businesses in Wales that did accessed support it was is most likely to be around financial advice (27%) and business growth (24%) with very few seeking external support on skills or training related issues (7%). This is despite the same survey showing that staff recruitment and skills was a top five business challenges identified by SMEs and that improving workplace skills was the number one priority for action they identified for the next three years.

³ FSB, August 2022, *Scaling Up Skills: Developing education and training to help small businesses and the economy*, available at <https://www.fsb.org.uk/resource-report/scaling-up-skills.html>

Figure 1 Skills deficiency summary amongst Welsh employers by size of business, 2022



Source: Employers Skills Survey 2022

In our interviews for our skills report, Only a minority of SMEs offered apprenticeships to their existing employees or new recruits. Those that did offer apprenticeships did so for a variety of reasons these including altruistic reasons, it was seen as the 'right thing to do', while others were using apprenticeships as a way to meet organisational skills needs and to attract and retain staff.

"I'm a great believer in is apprenticeships. And the reason I'm a great believer in that is I absolutely believe as the owner of a business that this business has the ability to transform lives for the good. And I think that as a responsibility that my business partner and I take very seriously" (small business, tech and IT)

"We've had two people who started with us as apprentices, and now they're moving into becoming senior engineers. And I get a real kick out of that. But also, what it means is they've come into the business, they understand it from the ground up and then they understand our clients really well Those engineers are far better than anyone that we can bring in." (small business, IT)

"Throughout the pandemic did not furlough anybody. What we did do, is we did right by our people, by taking on apprentices. And last year we took on 6, the year before that was 4, and the year before that was 5. So, we have continued our policy on bringing in apprentices and developing succession planning accordingly" (medium business, manufacturing)

Reasons given for those who didn't offer apprenticeship pathways were diverse. For some it was a lack of awareness, for others because they didn't think they needed them in their businesses. However, for others it was due to a lack of time and capacity to mentor, support and develop apprentices, and this lack of time and capacity was being exacerbated by the need to firefight current recruitment difficulties and increased workloads for existing staff.

"I did approach a local college shortly before the pandemic to see if a staff member working in the kitchen might be able to develop his cooking skills via an apprenticeship... unfortunately, the college level of cooking was not what I was looking for as the training was at a higher level than we were looking for and would have been able to support." (microbusiness, hospitality)

"The reason we don't do apprenticeships is because of the nature and the geographically dispersed nature of our organization... but more of the issue is because I'm fully versed in apprenticeships and I know the degree of support required to get the people and business benefits and we haven't got the time, I haven't got the time" (medium sized business, charity/third sector)

It should be noted that there are successful and effective examples of initiatives promoting greater engagement between business and education, but we **need to learn from successful, best-practice models already in operation across Wales**. Often, good practice is happening in fragmented pockets, and it is important that we showcase and share this across the system, which hopefully new structures such as Medr can help support.

From our interviews, a few businesses were working directly with FE and HE providers to develop flexible and bespoke training to meet their skills needs with some interviewees mentioning their local universities as being very helpful:

"UWTSD [University of Trinity St David], we work closely with them. Of course, smart partnership is part of that shared knowledge and having one of their lecturers 2 days a month with us." (micro business, aerospace)

Some had found access easier, owing to presence on boards, and personal relationships, that allowed for better flexibility in courses to match students to their work practices:

"I'm actually a board member of the Cardiff and Vale Hospitality and Tourism Board. So, I work very closely with the Cardiff and Vale colleges, and we bring people in on job experience and sort of we use them, and I go to the college, and I speak to the, to the students and things like that" (micro business, events, hospitality and leisure)

"Well, they kind of came to me because I did my Masters at Bangor University" (small business, tourism)

"The Advanced Manufacturing Academy is a lot more open to designing bespoke modules to accommodate the way that we could bespoke training to accommodate our needs" (medium sized business, precision engineering)

This **personal connection is appreciated** by those businesses and building relationships over time is a good approach and builds understanding across both sides of the equation. It is to be noted however that for many the recruitment onto boards and college activities seemed often to be based around ad-hoc relationships rather than systematic. This was from both sides of the business/institution equation.

In part this can be attributed to the **importance that building networks and social capital plays in developing businesses**. Nevertheless, while aiming to keep personal points of contact, there is an opportunity to systematise and explore strategies to promote increased small business engagement across college boards, partnerships, and other avenues. This includes further strengthening connections with relevant departments in colleges and universities.

However, many found **accessing schools and FE for practical based education and work experience difficult**, with many instances of SMEs themselves approaching colleges and universities but not getting a constructive response.

This evidence suggests that there needs to be better targeted support for SMEs to access the apprenticeships system, and to be able to have a system that caters to their training needs. It also requires a more structured approach to building links and networks between schools and colleges and SMEs as success currently depends on personal connections and ad-hoc links. Medr's role in providing a more responsive, better coordinated system that provides access for SMEs will be important. We would expect the RLPs and Medr to act as a conduit to government by bringing together labour market intelligence to inform provision.

Previously, there has been a weakness in that no centralised organisations (such as RLPs and Wales Apprenticeship Advisory Board (WAAB)) were capable of generating content for qualifications that responds to employer needs (that was not their role) – by bringing together data and coordinating role, Medr could provide a more structured role in making the system respond better to SME needs.

It should also be noted that whatever the institutional make-up, the system remains reliant on Welsh Government deciding that SMEs' needs are a priority, and the situation continues with frameworks developed in a small number of areas in response to very large (often public sector) employers. The system needs to be more responsive to SMEs and must be proactive in generating qualifications that are relevant to the Welsh economy, if we are to see the apprenticeship approach mainstreamed.

The new governance structure is helpful and provides opportunity, but political will and prioritisation is also needed in this regard. FSB had hoped that WAAB would provide a role in this regard during the last Senedd term, but it proved ineffective to this task. The Medr institution now tasked with coordinating the

complexities involved must be provided autonomy and authority to do so, and must be adequately resourced to perform the remit it is tasked with, including its role for SMEs. Our concern is that with other priorities and if resources and capacity are not sufficient to the challenges facing Medr, then key questions of ensuring frameworks and the system adapt to SME needs for growth will continue to be sidelined.

FSB Wales would like to see much greater employer engagement, a rolling programme of framework development and funding linked to the overall aims and objectives of the programme with an employer responsive programme of generating courses is an important part of this. We recognise that this is a challenge for many higher education institutions that have not traditionally had to work with employers, particularly SMEs in designing apprenticeship courses. However, if the apprenticeship route is to be successful it is crucial that employers are brought in from the outset and that this approach is properly funded.

We would also like to see further clarity on how apprenticeship frameworks will be refreshed across the board, and how SMEs can input into the qualifications design process.

For small businesses, all of these are important, and it is vital too that the growth of capacity and capabilities of small businesses through skills development, access to a pipeline of talent, is at the heart of its remit.
