Almost Three in 10 Small Businesses Say Skills Shortages Hinder Their Growth

Contributed by Federation of Small Businesses
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The latest Federation of Small Businesses' (FSB) Small Business Index shows a growing skills shortage in the workplace. Now identified as a significant barrier to growth for small firms, almost one third (29.9%) of those surveyed report skills shortages as hampering growth, with construction and computer services particularly hard hit.

To address this increasingly significant issue facing the UK labour market, the FSB wants to see a number of steps taken:

The business and education community must work more closely together to ensure young people are â€˜work ready' and understand the demands of the world of work. Employability skills must be embedded from an early age; the labour market has changed dramatically in recent years and businesses are adapting to that change but the education system needs to catch up.

Reforms must be completed to create a business-led, high quality apprenticeship system that provides a real choice between vocational and academic routes. This should be for the long term, and aspire to match standards of our leading competitors such as Germany.

Traineeships must be used as a credible alternative to a formal apprenticeship. Initiatives such as the TechBac, 14-19 college programmes and the rejuvenation of University Technical Colleges serve to demonstrate that a vocational education is no longer considered the second tier of the UK education system.

Despite the challenges around skills, the survey of almost 2,500 businesses shows confidence at a record high with year-on-year gains seen across the whole of the UK, led again by London and the South East. Confidence remains weaker in other parts of the UK such as the North West. Professional services and technology continue to display the strongest optimism, with significantly good news around the manufacturing sector.
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The report shows investment intentions remain strong. FSB believes business investment helps to boost productivity, which in turn feeds through into higher wages and living standards.
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Key findings show:

â€¢ The Small Business Index rose to 39.7, breaking the previous score of 35.7 in Q1 2014
â€¢ Nearly three in 10 small companies (29.9%) report skills shortages as a barrier to growth, up from 25.4% in Q1 2014
â€¢ Investment intentions remain strong. This quarter a net balance of more than one in four firms (25.6%) expects to increase capital investment over the next 12 months.
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John Allan, National Chairman, Federation of Small Businesses, said:

"As the labour market continues to tighten alongside the economic recovery, skills shortages will continue to be an increasing concern for more businesses. While this helps to boost the wage bargaining power of workers with the right skills, it poses a risk to the momentum of economic growth and once again underlines a long standing structural weakness in the UK economy.
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"Despite the emergence of a skills shortage, these results show small firms are still feeling very confident, with every intention to invest and grow. This will provide further momentum to the recovery, especially in terms of jobs growth."