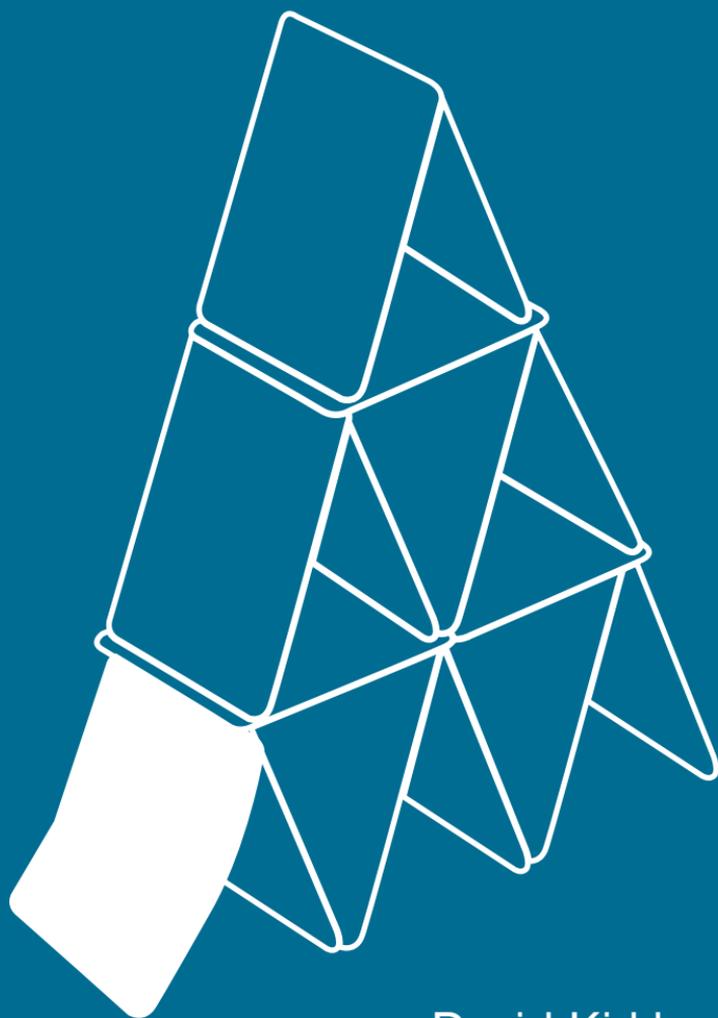


# Standing alone?

*Self-employment for  
those on low income*

 bright blue



David Kirkby

# STANDING ALONE?

**Self-employment  
for those on low income**

David Kirkby



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## Contents

	About the author	4
	Acknowledgements	5
	Executive summary	6
1	Introduction	17
2	Methodology	29
3	Who are the self-employed on low income?	37
4	Experiences of the self-employed on low income	48
5	Financial resilience	71
6	Access to advice and training	86
7	Policies to support the self-employed on low income	100
	Annex: Polling questions	115

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David is a Senior Research Fellow at Bright Blue, leading its work on poverty and welfare. He has authored numerous research papers on attitudes to immigration and welfare reform and is a regular commentator on these subjects in the media.

Prior to joining Bright Blue, David taught at Durham University. He holds a PhD in Philosophy and is a Trustee of the Joshua Project.

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ComRes conducted the polling for this report and I would like to thank their team for their attention to detail. Adam Ludlow, Andy White and Tom Mludzinski provided vital assistance with the design of the questions.

Polling was conducted between 17th December and 11th January 2016. Fieldwork was paused between Christmas Eve and January 4th to accommodate public holidays. It consisted of 1,034 adult self-employed respondents residing in Great Britain.

## Executive summary

Self-employment is on the rise. It has been for some decades now. More recently, increased self-employment has helped to drive the UK's current record employment levels. It has been forecast that the number of individuals who are self-employed will soon overtake the number of individuals working in the public sector.

As Chapter One explores, there is significant debate on whether rising self-employment is a positive or negative phenomenon. What is clear is that the rise in numbers has been accompanied by falls in earnings from self-employment. Our analysis reveals that self-employed individuals are now twice as likely to reside in a 'low income' household compared to employees.

In recent years, policymakers have rightly focused on how the growing proportion of the workforce who are self-employed can be better supported. A few weeks ago, the government-commissioned Deane Review recommended new policies to support the self-employed.

Less attention has been given to the self-employed in 'low income' households, who face unique circumstances and challenges – not only compared to self-employed people on higher incomes, but also compared to employees on 'low income'. As this report will reveal, this specific group is particularly exposed to income fluctuations and often lacks the support networks that employees have. This research report fills the gaps in the public policy literature by unearthing in detail the circumstances, characteristics, experiences and challenges of self-employed individuals in 'low income' households.

This in-depth examination of the lives of self-employed individuals in 'low income' households enables us to devise policies that will support them more effectively. This should help to boost

their own individual prosperity, as well as national prosperity. Supporting those on 'low income' to succeed in self-employment is key for reducing state welfare expenditure. Furthermore, with nearly a million people self-employed and on 'low income', their business performance is key for enhancing Britain's low levels of productivity.

### **Focus of this research and the methodology**

This report addresses the following research questions:

1. What are the characteristics and experiences of self-employed individuals in low income households?
2. What are the key challenges facing self-employed individuals in low income households?
3. What new policies are required to support self-employed individuals in low income households?

In this report, 'low income' refers to having an equivalised gross household income below 60% of median household income. It is similar, but not identical, to the commonly and internationally used definition of relative poverty, which the current Government is dropping; that relative poverty measure is having an equivalised net income below 60% of median household income. Crucially, this measure means that individuals who have low earnings from self-employment personally, but reside in wealthy households, are not classified as 'low income' for our purposes.

In order to answer the research questions, we employed a number of research methods, described in detail in Chapter Two. First, an extensive literature review of UK and international evidence on self-employment was undertaken. Second, statistical analysis of the Understanding Society survey was conducted to analyse the circumstances and socio-demographic characteristics of self-employed individuals in low income households. Third, we worked with ComRes to design and undertake depth interviews with self-employed individuals with different socio-demographic characteristics to identify key experiences and challenges. Fourth, polling of self-employed

individuals in Great Britain was also undertaken with ComRes to help to quantify the prevalence and importance of various experiences and challenges unearthed in the depth interviews. Fifth, a roundtable of experts was convened to explore policy ideas. Sixth, an expert steering group was convened to advise on methodology and analysis.

These research methods enabled us to identify: the characteristics of self-employed individuals in low income households (Chapter Three); their experiences of self-employment (Chapter Four); and the key challenges that they face (Chapters Five and Six).

### Characteristics of self-employed individuals on low income

This report finds that 20% of self-employed individuals reside in a low income household. This is considerably higher than the proportion of employees who reside in a low income household (10%). This indicates that over 900,000 individuals are self-employed and in a low income household in the UK.

We also find a significant difference between being in a low income household and having low personal earnings from self-employment. Drawing on our polling, only 58% of self-employed respondents who personally earned £14,000 or less resided in a low income household. The remaining 42% resided in higher income households due to additional household income.

Key findings from our analysis of the socio-demographic characteristics and circumstances of self-employed individuals in low income households – comparing them with self-employed individuals in higher income households and employees in low income households – include:

- **Age.** Sixteen percent of self-employed individuals in low income households are aged 60 and over and 40% are aged 50 and over. By contrast, only 30% of employees in low income households are aged 50 and over.

- **Educational attainment.** Thirty eight percent of self-employed individuals in low income households have a degree or a higher qualification and a further 21% have at least one 'A level'. By contrast, only 24% of employees in low income households have a degree or a higher qualification. This demonstrates that self-employed individuals in low income households exhibit on average higher levels of educational attainment than employees with similar household means.
- **Region.** Forty two percent of self-employed individuals in low income households reside in either London, the South East or the South West, approximately 400,000 in total. By contrast, only 28% of employees in low income households reside in the South of England.
- **Household composition.** Thirty six percent of self-employed individuals in low income households are single and 64% have a partner. By contrast, a much higher proportion (48%) of employees in low income households are single and 52% have a partner in the household.
- **Key Sectors.** Nineteen percent of self-employed individuals in low income households work in construction, 11% in wholesale and retail and 10% in professional, technical and scientific sectors. This is broadly reflective of the key sectors of occupation for self-employed individuals in higher income households.
- **Type of work.** Forty seven percent of self-employed individuals in low income households report as "working for themselves", compared to 39% of those in higher income households.
- **Hours worked.** Compared to employees in low income households, self-employed individuals in low income households work markedly more hours on average – 38 hours per week compared to 26 hours per week.

## Experiences of the self-employed on low income

A wide range of experiences of self-employed individuals in low income households emerged from our polling and depth interviews. These include both experiences connected with starting out in self-employment and those occurring during self-employment.

### Starting out in self-employment

- **Motivations.** Self-employed individuals in low income households have primarily positive reasons for entering self-employment. More flexibility is the most common motivation for becoming self-employed (46%), followed by wanting to run one's own business (39%) and more fulfilment (34%).  
However, compared to those in higher income households, self-employed individuals in low income households are more likely to have been motivated to enter self-employment to escape unemployment (28% compared to 13%) and by not being able to find other work (23% compared to 10%). While positive motivations predominate, a significant minority of those in low income households are, at least in part, pushed into self-employment.
- **Trigger events.** Movement into self-employment by those in low income households can be associated with a 'trigger event'. We identify two main types of 'trigger events'. First, major life episodes, such as redundancy or family separation. Second, receiving new advice or information, for example, from a friend or family member.
- **Support received.** There are three types of support those in low income households receive when starting out in self-employment: financial, practical (in-kind support, such as use of premises or equipment) and informational (guidance or mentoring on becoming self-employed). These can be derived from a variety of sources including family, a wider social network, the state, and an individual's own resources.

Of these types of support, financial support is the most common amongst those in low income households. Forty percent

are supported through existing savings when starting out in self-employment and 17% receive state benefits. The most common form of informational support when starting out in self-employment is business advice and support (15%). The most common form of practical support is having an existing client willing to provide work (10%).

### Being self-employed

- **Job satisfaction.** Self-employed individuals in low income households are overwhelmingly satisfied with their job (80%). While they are a little less likely to be satisfied than self-employed individuals in higher income households (85%), they are more likely to be satisfied than employees in low income households (74%) and those in higher income households (77%).
- **Ambitions.** We identify four types of ambitions held by self-employed individuals in low income households. ‘Builders’ are primarily focused on expanding their business significantly beyond its current level. ‘Sustainers’ aim to realise self-employment that will reliably support themselves and their families. ‘Opportunists’ see self-employment as a means to some other employment outcome. Finally, ‘drifters’ are unsure of their aspirations for self-employment. We find that the vast majority of self-employed individuals in low income households (75%) are ‘sustainers’. By contrast, 13% say that it is to grow their business to be as large as possible.

### Challenges for the self-employed on low income

This report identifies two key types of challenges faced by self-employed individuals in low income households: financial resilience and accessing advice and training.

#### Financial resilience

Ensuring that individuals have the financial resilience to cope with changes in circumstances is vital for household security and protecting the state against additional costs in the long run.

## Standing alone?

Self-employed individuals in low income households encounter particular challenges in this area.

- Self-employed individuals are more exposed to volatility and fluctuations in their income. In our polling, income volatility (55%) and late payment (22%) came through as two of the three main challenges self-employed individuals in low income households face in their job. In fact, 48% spend an hour or more per week chasing payments; 17% spend over two hours per week.
- Self-employed individuals also have fewer resources to cope with changes in financial circumstances. There are a number of state benefits which can be accessed by employees, but not the self-employed. These include Statutory Sick Pay, Statutory Maternity Pay and Paternity Pay, Contribution-based Jobseeker's Allowance and Holiday Pay. Our polling found that 37% of self-employed people in low income households report lack of holiday pay as one of their three main challenges, whereas 31% cite lack of sick pay.
- Weak financial resilience is exacerbated by low savings rates. Self-employed individuals in low income households are not only less likely to be saving part of their income than self-employed individuals in higher income households (26% compared to 48%), they are also less likely to save than employees in low income households (34%).

## Accessing advice and training

Quality advice and training is key for boosting the business activity of self-employed individuals. However, self-employed individuals in low income households face challenges in accessing advice and training.

- There are two distinct types of advice needed by self-employed individuals in low income households. 'Operational advice' covers basic information about the rules and regulations associated with being self-employed. This information relates to both business and personal matters; the tax system, benefit eligibility and insurance are all key topics. 'Entrepreneurial advice' covers guidance on how to expand a business and make it a long term success.

- The source of advice which is most important and effective for self-employed individuals in low income households is other self-employed individuals and local business owners. Thirty five percent say that this is the most effective source of advice. Contrastingly, only 12% report that family and friends are effective sources of advice and only 9% report that HMRC and other government bodies are.
- Self-employed individuals in low income households have limited access to training. Sixty four percent have not accessed training in the past 12 months, compared to 56% of self-employed individuals in higher income households. Of those who identify barriers to training, 47% cite cost as the key barrier.

## New policies

In Chapter Seven, we make five original policy recommendations. These are aimed at addressing the two key types of challenges we identify for self-employed individuals in low income households: financial resilience and accessing advice and training.

The policies we propose stem from three fundamental principles. First, recognising fiscal reality: considering ongoing fiscal constraints, proposed policies should not be too costly for government. Second, ensuring progressive impact: policies involving government expenditure on the self-employed should benefit those on low income the most. Third, having a sound empirical basis: policies should stem from the attitudes and priorities of self-employed people on low income.

### Recommendation one: Compulsory Contributory Top-up Accounts for the self-employed

We propose that all people whose main form of employment is self-employment be required to pay a new class of National Insurance above a certain income threshold into a Contributory Top-up Account. Each self-employed taxpayer would be assigned an individual account, with the balance accruing through payments, and accessible in times of need. Drawing down from the account would be tax-free. This will serve to boost the financial resilience of particularly those self-employed

## Standing alone?

individuals in low income households, without relying merely upon increased government spending.

Beyond this compulsory rate, further voluntary contributions should be possible. For those in low income households, voluntary contributions should be encouraged through some match funding from the state. This would ensure that those in low income households benefit more.

Individuals could draw down from these accounts only in specific circumstances: when they become unemployed; fall ill; experience a period of low income; become eligible for Maternity Allowance; or when they retire – with the remaining balance available to spend as they wish. This income would complement any state benefits they may receive concurrently.

On balance, while the self-employed are a ‘special case’ with regard to lower benefit eligibility, they are also a special case with regard to lower National Insurance Contributions compared to employees. When Class 2 National Insurance is abolished, employees will pay more National Insurance than the self-employed at every point on the income scale where any contributions are made at all. Though the self-employed will be required to pay more into the system than currently, these Contributory Top Up Accounts mean they are likely to get more financial support than employees during periods of unemployment, low income or parental leave.

As part of our polling we asked respondents whether enabling all self-employed individuals to save a small proportion of their earnings in a personal welfare account would appeal to them. Sixty four percent of self-employed respondents, and 65% of those in low income households said that this was appealing.

## Recommendation two: Financial incentives for Local Enterprise Partnerships (LEPs) to provide effective local advice networks for the self-employed

We propose that Local Enterprise Partnerships should be financially incentivised to develop local advice networks for self-employed individuals and business owners within a given locality. Funding for LEPs should be, in part, dependent upon them demonstrating that they are organising effective local advice networks for the

self-employed and, in particular, dependent upon them demonstrating that they will benefit those on low income. This will serve to boost the advice available to self-employed individuals.

As locally driven bodies with private sector representation, LEPs are well placed to deliver local advice networks, and play a greater role in supporting self-employed people. LEPs should have flexibility and autonomy over how these programmes are delivered.

In our polling we asked about local advice networks for self-employed people. We found that these appealed to 47% of self-employed individuals in low income households.

### Recommendation three: Guaranteeing self-employed representation on Local Enterprise Partnership boards

We propose that there should be a requirement for a certain proportion of LEP board members to be self-employed. This would help support the availability of advice and guidance for self-employed individuals offered by LEPs and the establishment of local advice networks. The exact proportion of board members required to be self-employed should be determined following consultation, but it should be reflective of self-employment rates in the wider economy.

### Recommendation four: Universal Credit advice portal

We propose that Universal Credit operate as a portal for self-employed claimants to access government advice and information about self-employment and also information regarding their local LEP and local advice networks. Self-employed Universal Credit claimants should be directed to this information as part of their monthly self-reporting of earnings. This will help to boost their ability to access advice.

### Recommendation five: Universal Credit earnings reporting transferrable for Council Tax Support

We propose that self-employed claimants of Universal Credit should be able to register their reported monthly earnings for Universal Credit directly with their council for Council Tax Support. Council Tax Support is administered locally and lies

## Standing alone?

outside of Universal Credit. Earnings submitted for Universal Credit by claimants should be used by councils for assessing Council Tax Support. This would simplify and reduce the burden on self-employed individuals claiming both Universal Credit and Council Tax Support.

## Conclusion

This report illustrates that the self-employed are more likely to be living in low income households compared to employees. Policymakers need to understand the unique circumstances, experiences and challenges faced by those who are in low income households. We provide a detailed snapshot of self-employment for those in low income households. Ensuring that these people flourish is crucial for both individual and national prosperity.

## Chapter 1: Introduction

In the aftermath of the 2008 recession, many economists were struck by the performance of Britain's labour market. Despite the deep fall in output, unemployment remained markedly lower than in previous recessions and as the economy recovered slowly, employment surged ahead of even the most optimistic forecasts.<sup>1</sup> The Bank of England declared that this was an "economic puzzle".<sup>2</sup>

Part of this jobs phenomenon was rising self-employment. Between 2008 and 2014, the number of people self-employed rose by 732,000, accounting for over half of all job creation. During this period, self-employment rose as a proportion of the total workforce from 13% to 15%.<sup>3</sup> There are now 4.62 million people in the UK who are self-employed.<sup>4</sup>

Rising self-employment appears to mark a structural, rather than merely a cyclical, change in the nature of Britain's labour market. While the rise in self-employment between 2008 and 2014 was especially sharp, with evidence suggesting that the economic cycle played a part,<sup>5</sup> it is part of a longer term trend which can be traced back to the turn of the century. Since 2000, self-employment has grown by 39% and risen steadily as a proportion of the

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1. Fraser Nelson, "The British jobs miracle, in six graphs", *The Spectator*, 13 June, 2014.

2. Martin Vander Weyer, "Britain's young entrepreneurs are leading the way", *The Daily Telegraph*, 18 August, 2012.

3. Office for National Statistics, "Self-employed workers in the UK - 2014", [http://www.ons.gov.uk/ons/dcp171776\\_374941.pdf](http://www.ons.gov.uk/ons/dcp171776_374941.pdf) (2014).

4. Office for National Statistics, "UK labour market, December 2015", [http://ons.gov.uk/ons/dcp171778\\_424920.pdf](http://ons.gov.uk/ons/dcp171778_424920.pdf) (2015).

5. Conor D'Arcy and Laura Gardiner, "Just the job - or a working compromise? The changing nature of self-employment in the UK", <http://www.resolutionfoundation.org/wp-content/uploads/2014/05/Just-the-job-or-a-working-compromise-FINAL.pdf> (2014).

workforce.<sup>6</sup> It has been forecast that self-employed individuals will outnumber those in the public sector within the next few years.<sup>7</sup> As the think tank the Resolution Foundation has put it: “it seems likely that relatively high levels of self-employment are here to stay”.<sup>8</sup> Box 1.1 below outlines the possible structural causes of this trend.

### Box 1.1. Possible structural causes of rising self-employment

A number of different structural factors could explain the rise in self-employment.

- **Demographic.** The average age of the UK’s workforce is rising for a variety of reasons, including the raising of the state pension age and inadequate pension pots. Self-employment is often particularly appealing to older workers.<sup>9</sup> Self-employed individuals are on average older than employees (as outlined in Chapter Three), with self-employment attractive as a form of ‘gradual retirement’, allowing older workers to flexibly scale back their work commitments.<sup>10</sup> Furthermore, higher labour market participation rates for women are also a factor behind rising self-employment. While most self-employed individuals are men, 60% of the increase in self-employment since 2008 is attributable to women.<sup>11</sup>
- **Economic.** The continuing economic shift towards services and away from traditional manufacturing increases opportunities for self-employment.<sup>12</sup> Manufacturing typically requires significant capital and large numbers of employees to hold down average costs,

6. Office for National Statistics, “Self-employed workers in the UK – 2014”, (2014).

7. IPSE, “PM’s vote of confidence in self-employed revolution”, <https://www.ipse.co.uk/news/pms-vote-confidence-self-employed-revolution> (2015).

8. Conor D’Arcy and Laura Gardiner, “Just the job - or a working compromise? The changing nature of self-employment in the UK” (2014).

9. Peggy Hollinger and Sarah O’Connor, “UK companies adapt to older workforce”, *The Financial Times*, 6 October, 2014.

10. Sarah Vickerstaff, “What do older workers want? Gradual retirement?”, *Social & Public Policy Review* 2008, 2.

11. Benedict Dellot, “Salvation in a start-up? The origins and nature of the self-employment boom”, [www.thersa.org/globalassets/pdfs/blogs/salvation-in-a-start-up-report-180714.pdf](http://www.thersa.org/globalassets/pdfs/blogs/salvation-in-a-start-up-report-180714.pdf) (2014), 21.

12. Richard Arum and Walter Muller, *The reemergence of self-employment: a comparative study of self-employment* (Oxford: Princeton University Press, 2004).

beyond the reach of most individuals wanting to move into self-employment. Services, by contrast, typically require less capital.

- **Technological.** The development of new technologies – particularly the internet - has made it easier for people to become self-employed by reducing costs and time burdens. The Royal Society of Arts has found that over a third of self-employed people would not have been able to start their business without recent advances in technology.<sup>13</sup>
- **Attitudinal.** The majority of individuals who move into self-employment cite non-economic factors, such as greater flexibility and autonomy, as important motivations for their decision (as we discuss in Chapter Four). The rise of self-employment may be driven in part by attitudinal shifts placing greater value on such non-economic employment factors – though this is difficult to quantify.<sup>14</sup>
- **Government policy.** Successive governments have implemented policies designed to increase the number of people entering self-employment. The New Enterprise Allowance (NEA), implemented in 2011, provides a weekly allowance for those previously unemployed and entering self-employment for up to 26 weeks (or up to a total of £1,274) and the support of a dedicated mentor. The Start Up Loans programme, implemented in 2012, provides loans to applicants who have a business plan approved.<sup>15</sup> Participation rates indicate that these policies have had an impact, but a modest one in the context of the total rise in self-employment.<sup>16</sup> In addition, a slight majority of participants on the NEA report that they would probably have set up their business even without NEA support.<sup>17</sup>

13. Benedict Delloit, “Salvation in a start-up? The origins and nature of the self-employment boom” (2014), 36.

14. Ryan Shorthouse, “The one-man band show: self-employment and good jobs” [http://www.demos.co.uk/files/GoodJobs\\_essaycollection.pdf?1418312724](http://www.demos.co.uk/files/GoodJobs_essaycollection.pdf?1418312724) (2014).

15. Conor D’Arcy and Laura Gardiner, “Just the job - or a working compromise? The changing nature of self-employment in the UK” (2014), 25.

16. Start Up Loans, “Annual impact report”, <http://www.startuploans.co.uk/wp-content/uploads/2014/12/ANNUAL-IMPACT-REPORT-FY-2013-20141.pdf> (2014); Department for Work and Pensions, “Great Britain New Enterprise Allowance quarterly official statistics: April 2011 to December 2014”, [https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/416178/New\\_Enterprise\\_Allowance\\_Official\\_Statistics\\_Mar15.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/416178/New_Enterprise_Allowance_Official_Statistics_Mar15.pdf) (2014).

17. Department for Work and Pensions, “New Enterprise Allowance: qualitative evaluation”, [https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/](https://www.gov.uk/government/uploads/system/uploads/attachment_data/)

With self-employment re-shaping Britain's labour market, it is no surprise that it is of growing interest to policymakers. There is now an expanding body of research devoted to analysing this trend. This research report will make an original contribution to this evidence base by focusing on the nature and experience of self-employment for those in 'low income' households.

### What is self-employment?

The UK operates with three main forms of employment: 'employee', 'worker' and 'self-employed'. Each of these employment statuses are associated with different employment rights and different personal taxation codes. As the UK operates with separate taxation and employment law, it is possible for someone to be self-employed for taxation purposes but not for employment purposes. Determining which status is appropriate in individual cases is not always straightforward. In fact, it can require an Employment Tribunal judgement to determine whether someone is an 'employee' rather than 'self-employed'.

In this report, we identify self-employed individuals through self-reporting. This measure encompasses a wide range of individuals. The Office for National Statistics (ONS) gathers information on the 'type' of self-employment that respondents understand themselves to be in engaged in, from different major surveys, offering the following types of self-employment:

- Paid a salary or a wage by an employment agency
- A sole director of your own business
- Running a business or professional practice
- A partner in a business or professional practice
- Working for yourself
- A sub-contractor
- Freelance

These categories underline the breadth and range of business arrangements captured by using self-reporting as a measure of

self-employment. Self-employment encompasses ‘sole traders’ and ‘freelancers’ who keep their business profits net of tax. Some self-employed individuals are ‘agency workers’ who find work through a work agency. Other will be ‘contractors’, for example in the construction industry, who are contracted to work on specific projects. Analysis of this diversity is provided in Chapter Three.

In sum, there is considerable diversity within the sphere of self-employment. It does not represent a homogenous form of employment and inevitably, this means that experiences and challenges vary and some policies aimed at the self-employed will not be uniformly relevant. In this report, we seek to explore some of the diversity amongst self-employed individuals in ‘low income’ households.

## The self-employment debate

In recent years, interest in self-employment has grown amongst policymakers, analysts and commentators. In particular, two central debates regarding self-employment have emerged. First, how should rising self-employment be assessed? Second, how can self-employed people be better supported?

### Assessing rising self-employment

The first major debate has focused on whether rising self-employment is a positive or a negative development.

For many, rising self-employment represents a burst of entrepreneurial spirit which can boost Britain’s economic performance and which should be celebrated. As the Chief Executive of the Association of Independent Professionals and the Self-Employed has put it, “the whole economy benefits from the flexible expertise and innovation that independent professionals and the self-employed can deliver”.<sup>18</sup> There are a number of economic and non-economic benefits to both individuals and society which are seen to result from rising self-employment.

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18. Chris Bryce, “Self-employed workers are the future. We need a fair deal for them”, *The Guardian*, 7 July, 2015.

The clearest economic benefit of rising self-employment in recent years has been its impact on employment rates in the UK. Between the first quarter of 2008 and the second quarter of 2014, 732,000 individuals were newly self-employed.<sup>19</sup> Since the recession, self-employment has become a more common destination for those previously unemployed entering the labour market.<sup>20</sup>

Furthermore, self-employment can boost employment by encouraging those with caring commitments into employment when they would otherwise be unable. Self-employment can offer a more flexible model of working than alternative employment routes and evidence has demonstrated that women are more likely to cite family and caring commitments as a major motivation for becoming self-employed.<sup>21</sup> It is therefore significant that the number of self-employed women has been growing at a faster rate than the number of self-employed men. Since 2009, the number of self-employed women has increased by 34%, while the number of self-employed men has risen by significantly less, 15%.<sup>22</sup> Greater flexibility can also encourage those considering retirement to remain longer in the labour market. Between 2009 and 2014, the number of self-employed people aged 65 and over rose by 187,000.<sup>23</sup>

There is also evidence to suggest that rising self-employment boosts the economy by supporting a shift towards a high skill and high knowledge economy. While self-employed people are most likely to work in construction and building trades, some of the largest rises in self-employment since 2009 have been in professional, scientific and technical sectors.<sup>24</sup> This has been accompanied by big increases in self-employed management and professional occupation roles.<sup>25</sup>

As well as the economic considerations, rising self-employment has also been credited with bringing non-economic

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19. Office for National Statistics, "Self-employed workers in the UK – 2014" (2014), 3.

20. Conor D'Arcy and Laura Gardiner, "Just the job - or a working compromise? The changing nature of self-employment in the UK" (2014).

21. Chris Dawson et al., "Why do individuals choose self-employment?", [http://opus.bath.ac.uk/39345/1/Why\\_do\\_individuals\\_choose\\_self\\_employment.pdf](http://opus.bath.ac.uk/39345/1/Why_do_individuals_choose_self_employment.pdf) (2009).

22. Office for National Statistics, "Self-employed workers in the UK – 2014", (2014), 10.

23. *Ibid.*, 5.

24. *Ibid.*, 8.

25. Citizens Advice and New Policy Institute, "Who are the self-employed?", <http://npi.org.uk/files/6914/4431/6944/Whoaretheselfemployed.pdf> (2015), 12.

benefits for the individuals in question. Most self-employed people describe their move into self-employment in ways which frame it as an issue of freedom and choice. Eighty four percent of self-employed people answering a 2014 poll said that becoming self-employed was a choice taken at least in part out of personal preference.<sup>26</sup> More than 80% of self-employed people agree that they are more satisfied in their working life compared to working for someone else. Furthermore, our data analysis (discussed in more detail in Chapter Four) finds little difference between the likelihood of self-employed individuals in ‘low income’ households being satisfied with their job (80%), and self-employed individuals in higher income households (85%) being satisfied. Irrespective of any economic benefit, enabling greater numbers of people to work in ways that better suit their needs and improve their wellbeing is an end in itself.

However, approval of the rising number of individuals becoming self-employed has been far from universal. In particular, there are concerns about the quality of new self-employment jobs. In recent years, average earnings from self-employment have fallen much faster than average employee earnings and now lie well below average employee earnings (this is discussed in detail in the next section of this chapter).<sup>27</sup> These low earnings from self-employment have been linked to the UK’s weak levels of productivity.<sup>28</sup>

There has also been a sharp rise in the number of self-employed people working part-time, up from 23% in 2005 to 28% in 2008. While this may in part reflect worker choices, the Resolution Foundation has found that self-employed people are more likely to be underemployed – wanting more hours or an additional job – than employees, up markedly from 2005.

In light of this, it has been argued that far from representing a burst of entrepreneurial spirit, rising self-employment is part of a trend towards less secure work, undertaken by workers in the

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26. Conor D’Arcy and Laura Gardiner, “Just the job - or a working compromise? The changing nature of self-employment in the UK” (2014), 32.

27. Office for National Statistics, “Self-employed workers in the UK – 2014” (2014), 11.

28. Citizens Advice, “Neither one thing nor the other”, <https://www.citizensadvice.org.uk/Global/CitizensAdvice/Work%20Publications/Neither%20one%20thing%20nor%20the%20other.pdf> (2015).

absence of alternatives. Indeed, the rise of self-employment has been seen by some as part of a new ‘precariat’ class of workers.<sup>29</sup> For example, a recent survey has found that a significant minority of newly self-employed people, 27%, became self-employed due to a lack of better work alternatives.<sup>30</sup> Moreover, in this regard critics have also pointed to the attempts to promote self-employment as a route out of unemployment. While this may boost employment levels, in these cases it seems likely that self-employment is often as much about a lack of alternatives as it is any positive choice to undertake it. Cases have been reported of unemployed individuals being encouraged to enter self-employment in order to become eligible for tax credits.<sup>31</sup>

In fact, it has been suggested that many newly ‘self-employed’ people are actually ‘bogus self-employed’. Cases have been highlighted of employees being classed as self-employed in order to limit the statutory obligations of employers towards them, for example with regard to redundancy, sick leave and holiday pay. Indeed, Citizens Advice have found the practice to be commonplace among their clients, with up to one in ten of their self-employed clients judged to be ‘bogus self-employed’.<sup>32</sup>

### Supporting self-employed people

The second major debate regarding self-employment has focused on the experiences and challenges facing self-employed people and how they can be better supported. Rising self-employment represents a major shift in the nature of Britain’s labour market and there is a danger of public policy failing to keep pace. Rather than assessing or evaluating the trend of rising self-employment, this debate has concerned the experiences and challenges faced by this burgeoning class of people and how they can be addressed by policymakers. For instance, there has been interest in a range of issues including access to welfare, pension arrangements, tackling

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29. Guy Standing, *A precariat charter* (London: Bloomsbury, 2014).

30. Conor D’Arcy and Laura Gardiner, “Just the job - or a working compromise? The changing nature of self-employment in the UK” (2014), 32.

31. Hannah Barnes, “Work advisers ‘pushing jobless into self-employment’”, *BBC*, 3 February, 2013.

32. Citizens Advice, “Neither one thing nor the other” (2015).

late payment, access to mortgages, ability to participate in public sector procurement and support for business growth.<sup>33</sup>

It is this second debate which is the primary concern of this report. Rather than pronouncing on the benefits or otherwise of rising self-employment, we will focus on the experiences and challenges of self-employed individuals and on assessing where better support is required.

In particular, this report will contribute to this debate by focusing on self-employed individuals in 'low income' households. As the next section describes, earnings from self-employment have fallen dramatically in recent years, raising the prominence of this group. As we shall demonstrate, there are a number of respects in which it is self-employed individuals who are in 'low income' households who are especially in need of support.

## Self-employment and low income

Self-employment in Britain has been marked by two principal developments in recent years. One, as already discussed, has been rising numbers of self-employed people. The second development has been falling average earnings from self-employment.

In recent years, average earnings from self-employment have declined dramatically and much more deeply than average employee earnings. According to the ONS, between 2008-09 and 2012-13 average median earnings from self-employment fell by 22%, from £15,000 to £12,000.<sup>34</sup> This compares to a fall in median employee earnings of 8.5%.<sup>35</sup> Similarly, HMRC data indicates a fall in earnings from self-employment of 17% between 2008 and 2011, underlining the sharp downward trajectory during this period. According to the Resolution Foundation, median annual earnings

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33. Benedict Dellot and Howard Reed, "Boosting the living standards of the self-employed", <https://www.thersa.org/discover/publications-and-articles/reports/boosting-the-living-standards-of-the-self-employed> (2015); Duncan O'Leary, "Going it alone", [http://www.demos.co.uk/files/DEMOS\\_GoingitAlone\\_web.pdf?1409503024](http://www.demos.co.uk/files/DEMOS_GoingitAlone_web.pdf?1409503024) (2014); Citizens Advice, "Going solo", <https://www.citizensadvice.org.uk/Global/CitizensAdvice/Work%20Publications/GoingSolo.pdf> (2015).

34. Office for National Statistics, "Self-employed workers in the UK – 2014" (2014), 11.

35. Office for National Statistics, "Real wages down by 8.5% since 2009", [http://www.ons.gov.uk/ons/dcp171780\\_305213.pdf](http://www.ons.gov.uk/ons/dcp171780_305213.pdf) (2013).

for the self-employed stood at £12,000 in 2014, compared to £21,900 for employees.<sup>36</sup>

These earnings figures should be treated with caution. There are discrepancies between different data sets and there are concerns about the extent to which surveys accurately capture earnings from self-employment. There is evidence to suggest that earnings from self-employment are underreported (discussed further in Chapter Two). Nevertheless, the downward trend in self-employment earnings in recent years is clear and robust.

With earnings from self-employment having fallen, assessing the experiences and challenges facing those self-employed individuals on 'low income' is vital. 'Low income' is a broad concept that can be defined in a number of ways. In this report, 'low income' is understood to refer to household income. In particular, 'low income' refers to having an equivalised gross household income below 60% of median household income. This is a good measure of the full economic means available to individuals. It is similar, but not identical, to the commonly and internationally used definition of relative poverty, which the current Government is dropping; that relative poverty measure is having an equivalised *net* income below 60% of median household income. Crucially, our measure means that individuals who have low earnings from self-employment personally, but reside in wealthy households, are not classified as 'low income' for our purposes.

Our analysis finds that 20% of self-employed individuals reside in a low income household. This is considerably higher than the comparable rate for employees – 10% of employees reside in a low income household. In essence, the self-employed are much more likely to live on 'low income' than employees.

This disparity is supported by the existing evidence base. The Households Below Average Income (HBAI) survey has found that self-employed households (households with one or more self-employed individuals) are more likely to have an income below 60% of the median than either households in which all adults are employees or couple households where there is only one employee

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36. Resolution Foundation, "The state of living standards", <http://www.resolutionfoundation.org/wp-content/uploads/2014/08/The-State-of-Living-Standards-ResolutionFoundation-Audit2014.pdf> (2014).

earner.<sup>37</sup> Furthermore, self-employment makes individuals more vulnerable to falling below this income threshold. In 2010, the Department for Work and Pensions found that whereas households with both adults working as employees have a 3% likelihood of moving onto a household income below 60% of the median, and households with one employee and one non-earner are twice as likely, self-employed households are three times as likely.<sup>38</sup>

Just as self-employment has driven rising employment levels, self-employment is now central to rates of low income in the wider economy. As such, it requires attention from policymakers if the UK is to become the “high wage, low welfare economy” this Government is seeking.

### The focus of this research

In this report, we explore the characteristics, experiences and challenges facing self-employed individuals in low income households. We particularly focus on challenges for this group which relate to or bear upon goals for policymakers, including building financial resilience, tackling unfair practices and boosting business activity. In other words, we identify challenges for self-employed individuals in low income households which are also challenges for policymakers. This will enable us to recommend policies aimed at addressing them, thereby better supporting this group.

It is important to emphasise that the challenges we identify in this report are not unique to self-employed individuals in low income households; they are often experienced by self-employed people on higher household incomes also. Nevertheless, as we shall explain, many of the challenges we identify tend to be particularly problematic for those in low income households. In summary, this report addresses the following research questions:

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37. Department for Work and Pensions, “Households below average income”, [https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/206778/full\\_hbai13.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/206778/full_hbai13.pdf) (2013).

38. Department for Work and Pensions, “Low-income dynamics”, [https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/200978/low\\_income\\_dynamics\\_1991-2008.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/200978/low_income_dynamics_1991-2008.pdf) (2010).

## Standing alone?

1. What are the characteristics and experiences of self-employed individuals in low income households?
2. What are the key challenges facing self-employed individuals in low income households?
3. What new policies are required to support self-employed individuals in low income households?

The report is structured as follows:

- **Chapter Two** describes the methodologies employed, including statistical analysis, polling, focus groups, an extensive literature review and a policy roundtable.
- **Chapter Three** outlines the key socio-demographic characteristics of self-employed individuals in low income households, as well as the type of work they undertake.
- **Chapter Four** outlines the experiences of self-employed individuals in low income households, including both when they are starting-out in self-employment and during self-employment
- **Chapter Five** explores the challenges which self-employed individuals in low income households face in building and sustaining financial resilience.
- **Chapter Six** explores challenges which self-employed individuals in low income households face in accessing advice and training.
- **Chapter Seven** recommends new policies to address some of the challenges faced by self-employed individuals in low income households and to support this group more effectively.

## Chapter 2: Methodology

This report aims to unearth the characteristics, experiences and challenges facing self-employed individuals in low income households. This chapter begins by describing the key terms and measures used. Second, this chapter explains the methods employed to achieve the research objectives.

### Identifying self-employed individuals

In this report, self-employed individuals are identified through self-reporting of employment status. That is, self-employed individuals are those who report that their main form of employment is self-employment, either full-time or part-time. This measure is used in our three sources of primary evidence: analysis of the Understanding Society survey; polling of self-employed people; and depth interviews with people who are, or who have been, self-employed in a low income household. This evidence is described in detail later in this chapter. Respondents who report as self-employed may also be an employee in a secondary capacity or as a ‘second job’. Identifying self-employed individuals in this way follows the ONS’s approach, described in Chapter One, which is “based on the respondents’ view of the type of work they do.”<sup>39</sup>

There is a drawback to identifying self-employed individuals in this way: self-reporting of self-employment can diverge from HMRC classification. In particular, ONS testing has indicated that directors of limited companies often consider themselves to be self-employed, despite HMRC guidance that these individuals should

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39. Office for National Statistics, “Self-employed workers in the UK – 2014” (2014), 17.

be classified as employees for tax purposes.<sup>40</sup> It has been estimated that between 400,000 and 500,000,<sup>41</sup> or roughly one in ten of those recorded as self-employed by the ONS, are directors of limited companies, and so not self-employed according to HMRC. Some of these might fall within our measure of self-employment, but it is important to note that they will also have to be in a low income household to be studied in this report.

### Measuring 'low income'

In this report, 'low income' is defined as having an equivalised gross household income below 60% of median household income.

Equivalised incomes are adjusted to account for household size and widely used to better reflect household means. Similarly, as discussed in Chapter One, the 60% income threshold is commonly used in national surveys, such as the Households Below Average Income (HBAI) survey, and was previously used by government as the marker for relative poverty. This report uses gross household income rather than net household income due to methodological constraints.

The definition of low income employed in this report is applied to our three primary evidence sources: statistical analysis of the Understanding Society survey, polling of self-employed individuals, and depth interviews with self-employed individuals.

In our depth interviews, we wanted to capture a range of financial circumstances, both being on a low household income and also having transitioned from a low household income to a higher household income. The majority of our interviewees were in low income households and the remainder had moved from a low household income onto a higher household income in the past five years. The motivation for this was that comparing those who transition between different income groups with those who do not

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40. HMRC, "Employment status", <https://www.gov.uk/employment-status/selfemployed-contractor>.

41. Office for National Statistics, "Revisions to Workforce Jobs April 2013", <http://www.ons.gov.uk/ons/guide-method/method-quality/specific/labour-market/articles-and-reports/revision-to-workforce-jobs-april-2013.pdf> (2013).

could help us identify particular experiences or sources of support that can help self-employed people, shaping our policy ideas.

By focusing on household income, many self-employed individuals with low individual earnings are excluded from our analysis. This is because many such individuals – while earning little themselves from self-employment – reside in households with higher total income due to an earning partner. Our judgement was that excluding low earning, high household income individuals was appropriate given that we wanted to focus on those with limited household means.

### Box 2.1 Capturing earnings from self-employment

There are special factors which must be taken into account when considering low income for self-employed people.<sup>42</sup> Irrespective of the particular definitions employed, earnings from self-employment – derived from different data sets such as from the ONS and HMRC – should be treated with caution for three reasons.

First, it is thought that self-reported incomes for self-employed people are often inaccurate either because of deliberate misreporting (primarily out of a desire to evade taxes) or because of genuine uncertainty.<sup>43</sup>

Second, earnings from self-employment are more variable than the wages of employees and snapshots of a self-employed person's earnings at any moment in time in a survey (for example, ONS data rather than HMRC data) may therefore give a misleading impression of their overall earnings.

42. See, for example, Kathryn Ray et al., "Employment, pay and poverty: evidence and policy review", [http://www.theworkfoundation.com/DownloadPublication/Report/364\\_Employment%20pay%20and%20poverty%20.pdf](http://www.theworkfoundation.com/DownloadPublication/Report/364_Employment%20pay%20and%20poverty%20.pdf) (2014), 38.

43. Alari Paulus, "Income underreporting based on income expenditure gaps: survey vs tax records", <https://www.iser.essex.ac.uk/research/publications/working-papers/iser/2015-15.pdf> (2015); Erik Hurst et al., "Are household surveys like tax forms: evidence from income underreporting of the self-employed", <http://www.federalreserve.gov/pubs/feds/2011/201106/201106pap.pdf> (2010).

Third, there is evidence that self-employed people tend to enjoy a higher standard of living than would normally be expected given their levels of income.<sup>44</sup> For example, children in self-employed couple families have a poverty rate of 23% if measured relatively (below 60% of median household income), but only 6% using a material deprivation measure.<sup>45</sup> Although this is a more pronounced phenomenon amongst the self-employed, it is a problem with income measures more generally and analysis of HBAI statistics suggest that households reporting the lowest incomes do not always have the lowest living standards.<sup>46</sup> The Royal Society of Arts has found that 75% of self-employed-only households in the bottom fifth of the household income spectrum are homeowners compared to 59% of employee-only households.<sup>47</sup>

For these reasons, precise estimates of income for self-employed individuals should be treated with caution. In this report, we take income figures for self-employed individuals to be broadly indicative and instructive of household means, while recognising that in particular cases this may not be straightforward.

## Research techniques

We employed seven research techniques for this report:

- **Literature review:** An extensive literature review was conducted of existing UK evidence. This included:
  - Literature relating to the rise in self-employment and the challenges facing self-employed individuals
  - Relevant academic work
  - Different surveys
  - Government research papers

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44. Kathryn Ray et al., "Employment, pay and poverty: evidence and policy review" (2014), 38.

45. *Ibid.*, 6.

46. Department for Work and Pensions, "Households below average income (HBAI) quality and methodology information report – 2012/13", [https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/325492/households-below-average-income-quality-methodology-2012-2013.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/325492/households-below-average-income-quality-methodology-2012-2013.pdf) (2014), 24.

47. Benedict Delloit and Howard Reed, "Boosting the living standards of the self-employed" (2015).

- **Statistical analysis:** Bright Blue drew on survey data to analyse the circumstances of self-employed individuals in low income households, including gender, age, region, household type, type of work, job satisfaction and finances. The data set used was Understanding Society.
- **Depth interviews:** Fifteen interviews were conducted with individuals who were self-employed and in low income households or who had previously been self-employed in a low income household. Interviews were conducted by ComRes.
- **Polling:** A poll of self-employed individuals, including those in low income households, was undertaken to explore experiences and challenges (see Annex for the full list of questions). Polling was conducted by ComRes.
- **Consultation:** Bright Blue consulted with a number of academics, civil servants, opinion formers, campaigners and researchers.
- **A policy roundtable:** Bright Blue convened a roundtable with decision makers and opinion formers to discuss policies affecting self-employed individuals in low income households and brainstorm new policy ideas.
- **An expert steering group:** Bright Blue convened an expert steering group with academics and policy experts which advised on research methodology and analysis, and policy formulation.

The charts in this report illustrate data from either our statistical analysis of Understanding Society or our polling. We signpost throughout the report to which data set each chart relates.

### Statistical analysis

Statistical analysis of the Understanding Society survey was undertaken for this report, with data drawn from Wave Four of the survey, from 2012-2013. Understanding Society is a longitudinal study of UK adults. Our analysis was based upon four respondent groupings:

## Standing alone?

- Self-employed individuals living in low income households (sample size of 831)
- Self-employed individuals not living in low income households (sample size of 2,898)
- Employees living in low income households (sample size of 2,903)
- Employees not living in low income households (sample size of 20,157)

Data is weighted using the weights provided by Understanding Society, to ensure that the sample is representative of age, gender and region.

## Depth interviews

Fifteen depth interviews were conducted for this report by ComRes. We sought a spread of interviewees with different experiences of being self-employed in a low income household. Interviewees fell into one of the three following categories that we conceptualised:

- **‘Flatliners’**: Self-employed individuals who had been in a low income household for at least a year (sample of five).
- **‘Fallers’**: Individuals who were formerly self-employed in a low income household for at least a year but who had since left self-employment (sample of five).
- **‘Flyers’**: Self-employed individuals who did not reside in a low income household but who had seen a significant rise in their household income since becoming self-employed over the past five years (sample of five).

Across these categories, the sample included a spread of gender, age and occupation.

These three sample groupings meant that our interviewees had different perspectives on being self-employed and being in a low income household, capturing a wider range of experiences. ‘Flatliners’ were currently self-employed in a low income household and had been so for at least a year. For them, being self-employed in a low income household represented a settled state of affairs.

'Fallers' had previously been self-employed in a low income household for at least a year but had left self-employment subsequently. We felt that the responses of this group would help to illustrate where and why being self-employed in a low income household is not sustainable. For them, being self-employed in a low income household represented an unsustainable state of affairs.

Finally, 'flyers' were self-employed individuals who had seen their household income rise significantly over the low income threshold whilst being self-employed. The responses of this group shed light upon how being self-employed can be a route out of low income, highlighting the barriers which had to be overcome on the way.

Interviewees were asked questions relating to four issues: first, their journey into self-employment; second, their motivations for undertaking self-employment; third, the challenges they faced being self-employed; fourth, types and sources of support they would find helpful. In each case, interviewees were asked to think about their answers on both a personal and a professional level.

## Polling

Polling was undertaken by ComRes and conducted between 17th December and 11th January 2016. Fieldwork was paused between Christmas Eve and January 4th to accommodate public holidays. It consisted of 1,034 adult self-employed respondents residing in Great Britain. Results were weighted to be representative of age, gender and region of self-employed individuals in Great Britain.

The design of our polling questions was informed by our literature review and depth interviews which had revealed a number of common experiences and challenges for self-employed individuals in low income households. This helped to shape the questions and particular issues we investigated through our polling.

Our polling included a large sample of self-employed individuals in low income households (243), enabling us to achieve three goals.

## Standing alone?

First, we were able to quantify the experiences and challenges that emerged from our depth interviews. This helped us establish how common these various experiences and challenges were amongst self-employed individuals in low income households as a whole. Polling also enabled us to unearth their views on our policy recommendations.

Second, our polling allowed us to segment those self-employed individuals in low income households according to other socio-demographic characteristics including gender, age, and previous employment (full cross-breaks are listed in Box 2.2). This helped to reveal the diversity of self-employed individuals in low income households.

Third, our polling allowed us to compare the responses of self-employed individuals in low income households with those of self-employed individuals not in low income households. As such, we were able to unearth both where the experiences and challenges differed for these two income groups, and also where they were similar.

All the cross-breaks used to observe differences in the views of respondents are detailed in Box 2.2 below.

### Box 2.2. Complete polling cross-breaks

- Gender
- Age
- Previous employment
- Type of self-employment
- Full-time or part-time
- Company employees
- Personal income
- Low household income/non-low household income

## Chapter 3: Who are the self-employed on low income?

In this chapter, we explore the characteristics of self-employed individuals in low income households.

We begin by exploring the socio-demographic characteristics of this group, such as their gender, age and region, before turning to the type of work undertaken. Throughout, the characteristics of this group are compared with those of self-employed people who are not in low income households, and also with those of employees who are in low income households.

First, it is important to note the number and proportion of people in the UK who are self-employed and in a low income household. Our analysis of Understanding Society finds that 20% of self-employed individuals reside in a low income household. This is considerably higher than the comparable rate for employees (10%). Given that 4.62 million individuals are self-employed in the UK,<sup>48</sup> this indicates that over 900,000 individuals are self-employed and in a low income household. This excludes self-employed individuals who have low personal earnings, but who reside in a higher income household due to another earner. In our polling sample, of the self-employed respondents who personally earned £14,000 or less, only 59% resided in a low income household. The remaining 41% resided in higher income households.

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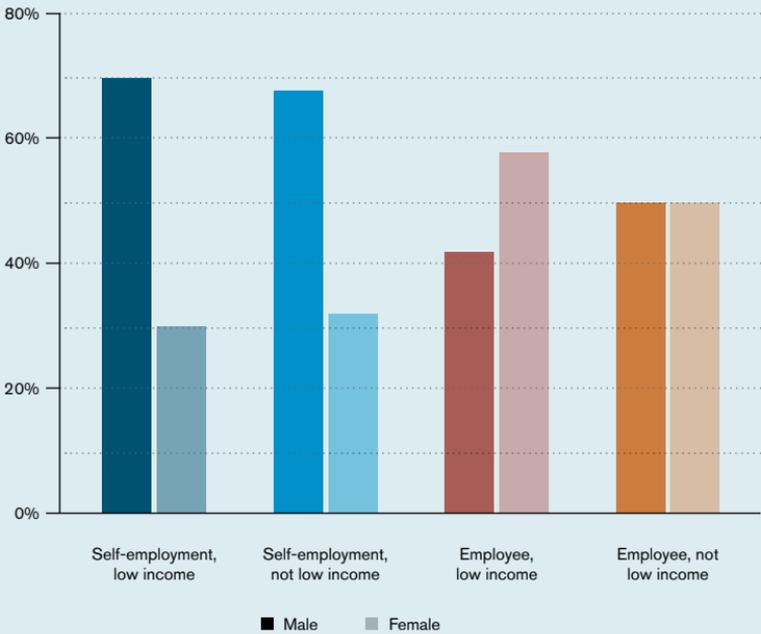
48. Office for National Statistics, "UK labour market, December 2015" (2015).

## Socio-demographic characteristics of self-employed individuals on low income

### Gender

Self-employed individuals in low income households are more likely to be men than women. Our analysis of Understanding Society found that 70% of such individuals are male and 30% female. This gender balance is in line with that for self-employed people generally – it is not a balance distinctive to those in low income households – but it does contrast with employees in low income households. Only 42% of employees in low income households are male while 58% are female.

Chart 3.1. Gender, by employment type and by household income



Source: Understanding Society Survey, Wave Four

Chart 3.1 demonstrates that women who are self-employed are no more likely than self-employed men to be in a low income household. This gender balance is striking given that women who are self-employed typically individually earn far less than men. HMRC figures show that women who are self-employed earn an average of £9,800 compared to £17,000 for men.<sup>49</sup> Nor is this gap a recent development.<sup>50</sup> This underlines that while many self-employed women earn little, many reside in households with another higher earning member of the household. As such, their low individual earnings from self-employment often do not coincide with low household income.

### Age

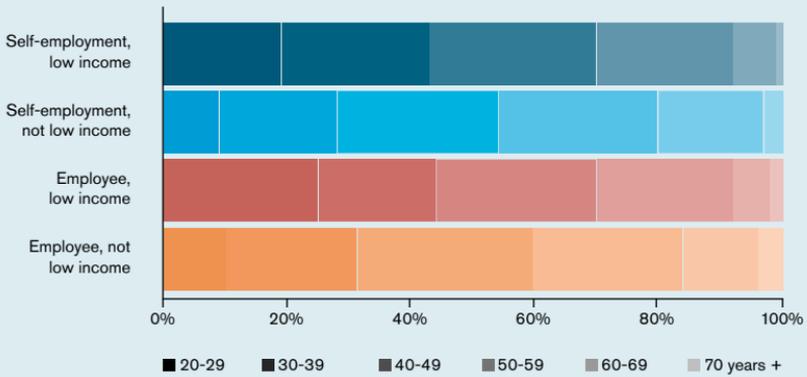
Our analysis of Understanding Society reveals that 16% of self-employed individuals in low income households are aged 60 and over and 40% are aged 50 and over. Only 10% are aged under 30. This is a slightly younger age composition compared to self-employed people generally, but represents a markedly older orientation when set against employees in low income households. Only 30% of employees in low income households are aged 50 and over. This is illustrated in Chart 3.2.

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49. Lucy Fisher, "Many 'self-employed' women get by on less than £10,000 a year", *The Guardian*, 8 March, 2014.

50. Nigel Meager et al., "Self-employment and the distribution of income", <https://www.jrf.org.uk/report/self-employment-and-distribution-income> (1994).

**Chart 3.2. Age, by employment type and by household income**



Source: Understanding Society Survey, Wave Four

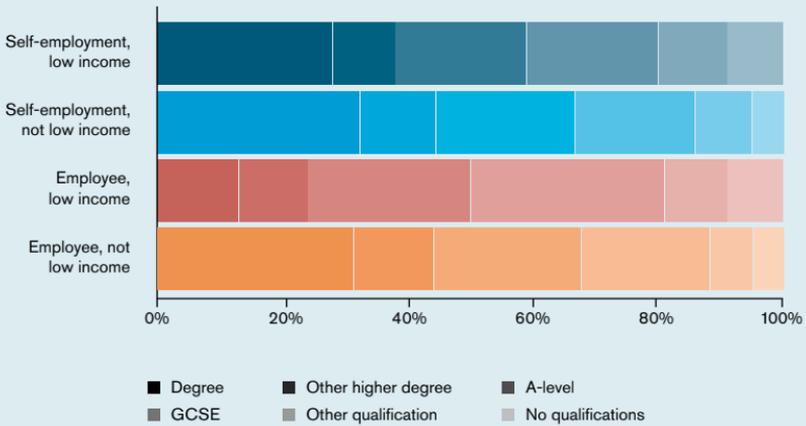
For many older people, self-employment is attractive as a form of ‘gradual retirement’, enabling them to scale back work commitments on a more flexible basis. Furthermore, the Government is committed to supporting individuals to work longer and self-employment is an important route in this regard. Our analysis finds that being older marginally reduces the likelihood of a self-employed individual being on a low household income.

### Educational attainment

Our analysis of Understanding Society finds that 38% of self-employed individuals in a low income household have a degree or a higher qualification and a further 21% have at least one ‘A level’. This is broadly in line with the education levels of self-employed individuals more generally but it does contrast with levels of education for employees in low income households. Only 24% of employees in low income households have a degree or a higher qualification. This is illustrated in Chart 3.3. Self-employed individuals in low income households are more likely to have degree-level qualifications and less likely to have only GCSE-level qualifications compared to employees in low income households.

This finding indicates that while there is an association between educational attainment and household income for employees, this is markedly weaker for self-employed individuals. Low household income does not indicate lower educational attainment in the case of the self-employed in the way that it does for employees.

**Chart 3.3. Highest qualification achieved, by employment type and by household income**

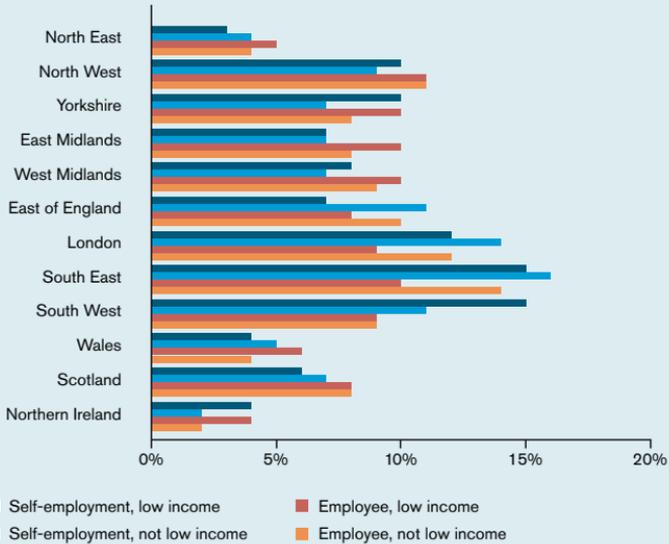


Source: Understanding Society Survey, Wave Four

### Region

Turning to regional distribution, our analysis of Understanding Society finds that self-employed individuals in low income households are concentrated in the South of England. Forty two percent of self-employed individuals in low income households reside in either London, the South East or the South West, approximately 400,000 in total. By contrast, only 28% of employees in low income households reside in the South of England, as shown in Chart 3.4.

**Chart 3.4. Region of habitation, by employment type and by household income**



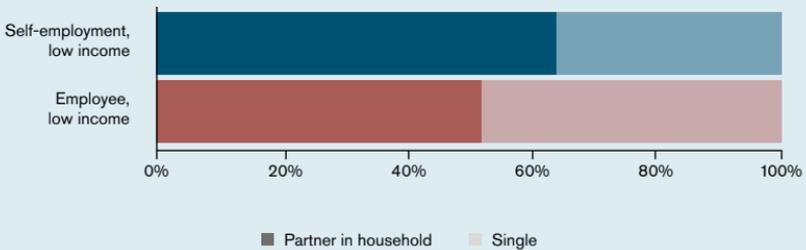
Source: *Understanding Society Survey, Wave Four*

This indicates that low household income associated with self-employment is more of a southern phenomenon compared to that associated with working as an employee. While this is partly explained by the greater concentration of self-employed individuals more generally in these regions compared to employees, this does not wholly account for the phenomenon. Employees who are in a low income household are less likely to reside in the South of England (28%), compared to employees who are in a higher income household (35%), as Chart 3.4 demonstrates. In other words, for employees residing in the South of England is associated with an income boost. For the self-employed however, this income boost appears to be absent. Self-employed individuals in low income households are broadly as likely to reside in the South of England as self-employed individuals in higher income households.

## Household composition

Looking at household composition, we found that self-employed individuals in low income households are less likely to be single than employees in low income households. As Chart 3.5 shows, 36% of self-employed individuals in low income households are single and 64% have a partner. By contrast, 48% of employees in low income households are single and 52% have a partner in the household.

**Chart 3.5. Household composition, by employment type**



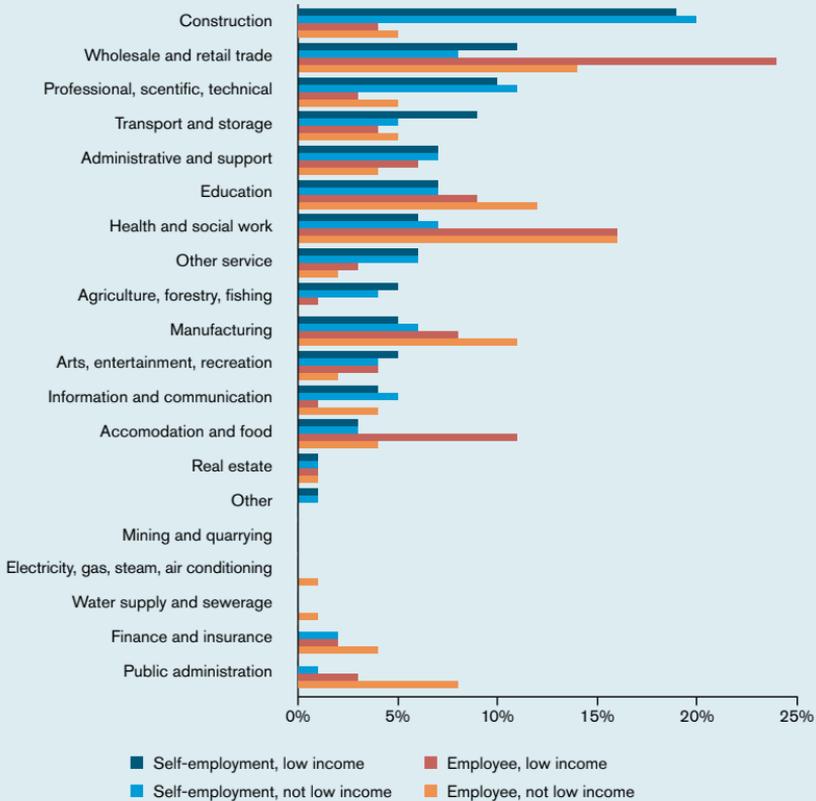
Source: Understanding Society Survey, Wave Four

## Type of work

### Sector

Self-employed individuals in low income households are spread throughout a wide range of sectors and occupations. Our analysis of Understanding Society finds no significant differences between the sectors in which self-employed individuals in low income households work and those in which self-employed individuals in higher income households work. Construction is the largest sector across incomes groups for the self-employed. Nineteen percent of those in low income households work in construction, 11% in wholesale and retail and 10% in professional, technical and scientific sectors. By contrast, the major sectors of work for employees in low income households are wholesale and retail (24%), health and social work (16%) and accommodation and food (11%). This is illustrated in Chart 3.6.

**Chart 3.6. Sector of employment, by employment type and by household income**



Source: Understanding Society Survey, Wave Four

Construction is a projects-based industry, bringing together a wide range of professions on a single project. Professor Andrew Burke has explained that self-employed workers are important for reducing the risks to firms undertaking such projects.<sup>51</sup> Equally though, there is evidence that the key sectors for the self-employed are shifting. Between 2004 and 2014, the largest rises, in absolute

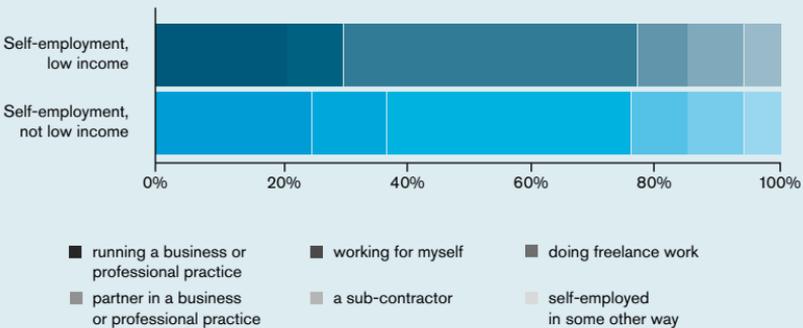
51. Andrew Burke, "Freelance workers in the construction industry", <http://www.som.cranfield.ac.uk/som/dinamic-content/media/Wendy%20Lewis/Research/Freelance%20Workers%20in%20Construction%202nd%20Edition.pdf>.

terms, in self-employment were in high skilled, professional and managerial sectors.<sup>52</sup>

### Type of self-employment

As we outlined in Chapter One, the ONS asks self-employed people to characterise the kind of self-employment they are engaged in. These options are detailed in Chart 3.7 below. We found that self-employed individuals in low income households are more likely to say that they work for themselves (47%), compared to 39% of self-employed individuals in higher income households. On the other hand, they are marginally less likely to describe themselves as running a business or professional practice – 21% compared to 25% of self-employed individuals in higher income households.

**Chart 3.7. Type of self-employment undertaken, by household income**



Source: *Understanding Society Survey, Wave Four*

### Hours worked

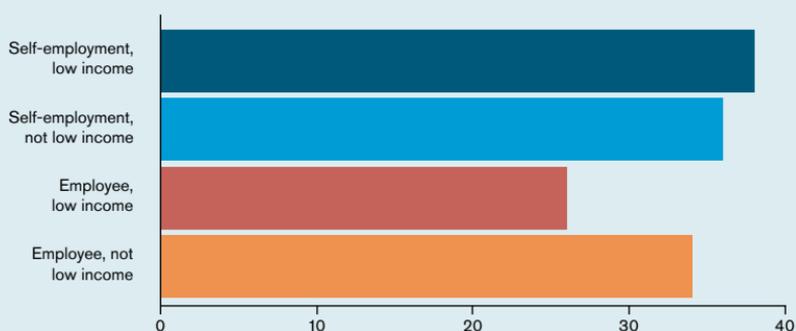
While self-employed individuals in low income households are more likely to self-describe as “working for myself”, this should not be taken to imply that they put in less effort or work less hard. Our analysis finds little difference between the average hours worked by self-employed individuals in low income households

52. Citizens Advice and New Policy Institute, “Who are the self-employed?” (2015).

## Standing alone?

and the average hours worked by self-employed individuals in higher income households. Moreover, when compared to employees in low income households, self-employed individuals in low income households work markedly more hours on average – 38 hours per week compared to 26 hours per week. Indeed, overall, the self-employed in low income households work on average more hours in a week than any other worker. This is illustrated in Chart 3.8.

**Chart 3.8. Average hours worked per week, by employment type and by household income**



Source: *Understanding Society Survey, Wave Four*

In sum, in terms of their socio-demographic characteristics, the distribution of self-employed individuals in low income households is broadly reflective of that for self-employed people more generally. When it comes to central characteristics, such as gender and region, being in a low income household does not appear to make a significant difference. However, self-employed individuals in low income households are slightly younger on average than those in higher income households. In terms of type of work, self-employed individuals in low income households work in a similar range of sectors to those in higher income households. They work similar average hours, despite lower household income, and are more likely to say that they “work for themselves”.

Importantly, self-employed people are twice as likely to be living in a low income household compared to employees. There are significant differences in socio-demographic characteristics between self-employed individuals in low income households and employees in low income households. For example, self-employed individuals in low income households are more likely to be men and also more likely to be older.

## Chapter 4: Experiences of the self-employed on low income

In this chapter we turn from the characteristics of self-employed individuals in low income households, described in the previous chapter, to the experiences of this group. We begin with key experiences associated with starting out in self-employment, including motivations and support received. Subsequently, we explore common experiences of being self-employed, including ambitions and key challenges.

### Starting out in self-employment

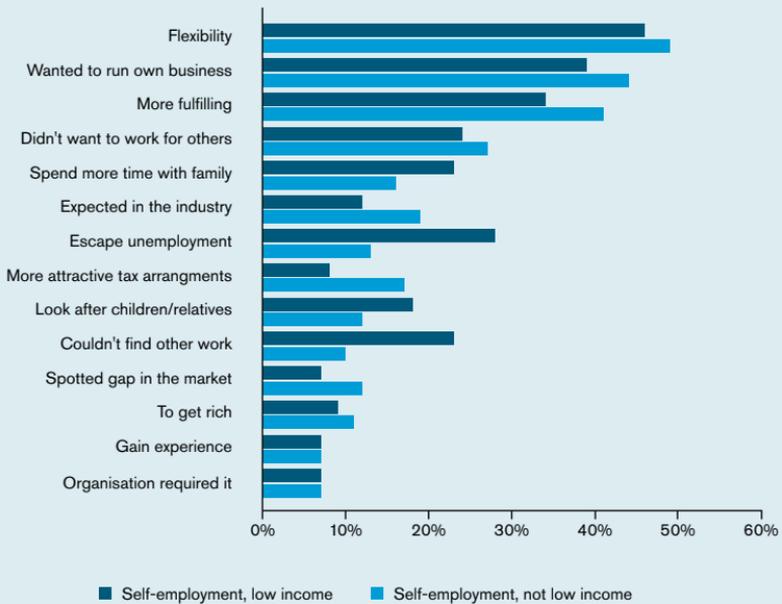
#### Motivations

People start out in self-employment for many different reasons. Broadly, there are two types of motivations: positive and negative motivations. For positive motivations, individuals are drawn or attracted to a certain facet of self-employment, for example, greater autonomy or flexibility. For negative motivations, individuals are pushed towards self-employment by some external factor, for example, absence of a better alternative.

In our polling, we asked self-employed individuals what their top three reasons were for entering self-employment. Amongst those in low income households, more flexibility was the most common motivation (46%), followed by wanting to run one's own business (39%) and more fulfilment (34%). These are all positive motivations, with individuals being attracted to a particular aspect of self-employment. Overall, self-employed individuals in low income households are more likely to be

motivated by positive rather than negative reasons. Although a significant proportion do report negative motivations. The most common negative motivation for self-employed individuals in low income households was escaping unemployment (28%). The results are illustrated in Chart 4.1 (respondents were able to select multiple answers).

**Chart 4.1. Main motivations for becoming self-employed, according to self-employed individuals, by household income**



Source: ComRes

Base: 1,034 self-employed individuals

As Chart 4.1 shows, the motivations of those in low income households are broadly reflective of those in higher income households. However, self-employed individuals in low income households are more likely to have been motivated to enter self-

employment to escape unemployment (28%) to (13%) and by not being able to find other work (23%) to (10%). While those in low income households are broadly positive about their reasons for entering self-employment, there is a significant minority who are, at least in part, pushed rather than pulled into self-employment and this is associated with being in a low income household.

There is also some significant variation amongst those self-employed in a low income household. Self-employed women in low income households are markedly more likely to be motivated by the flexibility of self-employment than men: 55% compared to 40%. Relatedly, women are also more likely to be motivated by being better able to care for children or relatives 35% to 9%.

These differences between men and women are mirrored by a similar difference between those working full-time and those working part-time. Self-employed individuals in low income households who work part-time are much more likely (58%) to be motivated by the flexibility of self-employment than those who work full-time (36%). Similarly, they are more likely to be motivated by being better able to care for children or relatives: 25% compared to 13%. These are both 'positive' motivations which come through more strongly for those working part-time than those working full-time.

This dominance of positive motivations for entering self-employment fits with the existing literature.<sup>53</sup> A recent Royal Society of Arts and Populus poll of self-employed people found that wanting more freedom was the most cited reason for entering self-employment.<sup>54</sup> Similarly, the particular focus placed upon having a flexible family life by women entering self-employment has been identified elsewhere.<sup>55</sup> Our data shows that these features similarly emerge for those in low income households.

In our depth interviewees, desire for greater autonomy and the flexibility to combine work with other commitments came through as the two most common motivations, mirroring

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53. Chris Dawson et al., "Why do individuals choose self-employment?", [http://opus.bath.ac.uk/39345/1/Why\\_do\\_individuals\\_choose\\_self\\_employment.pdf](http://opus.bath.ac.uk/39345/1/Why_do_individuals_choose_self_employment.pdf) (2009).

54. Benedict Delloit, "Salvation in a start-up?" (2014).

55. Chris Dawson et al., "Why do individuals choose self-employment?" (2009).

our polling results. For some of our interviewees, the desire for autonomy was expressed quite abstractly in terms of “controlling your own destiny” or “being in charge”. For others, autonomy was a more concrete matter of being able to undertake projects or a variety of work that would otherwise not be available. For one of our interviewees, a former PR and marketing employee, becoming self-employed as a music event organiser meant this:

*No-one would have let me set up a festival if I'd been employed. It always stretches you; it's exciting.*

'Flatliner', single, aged 50+, South East

Flexibility to fit work around other commitments was also commonly raised by our interviewees, family commitments in particular. In the majority of cases, interviewees who identified flexibility as a key motivation had dependent children and believed that self-employment would enable them to spend more time with them.

*I'm based at home. I can be with the children and the work still gets done.*

'Flatliner', single with children, aged 30-49, rural

Indeed, one of our interviewees who did not have children was nevertheless motivated to go into self-employment because she anticipated having children in the future and believed that self-employment would “work well”. Unlike other key motivations for entering self-employment, seeking flexibility to accommodate family commitments – specifically, those involving dependent children – is bound up with the household circumstances of an individual. This may indicate that having dependent children raises the likelihood of being motivated to enter self-employment.

The promise of higher earnings was less cited by interviewees. This fits with a theme discussed later in this chapter: many self-employed individuals in low income households have limited business aspirations. Many of our interviewees were very clear that moving into self-employment

## Standing alone?

would lower their earnings potential, in some cases in the long term. As one described:

*It's kind of a niche business so it's not ever going to be successful in terms of financial success.*

'Flatliner', single, aged 50+, South East

Interviewees who did highlight higher earnings as an important motivation tended to be 'flyers' – individuals who had seen their household income rise significantly from a low base while self-employed.

Negative motivations also came through in our depth interviews, though as with our polling findings they were not as common. One interviewee with especially clear negative motivations reported that the company she wished to work for full-time as a PA would only offer her work if she were self-employed. Becoming self-employed was primarily a matter of meeting the wishes of the company, rather than being attracted to self-employment. As she put it:

*In order for them to take me on, I had to go self-employed because they didn't want to put me on the books. They didn't want me to have a contract. That forced me into doing it, otherwise I wouldn't have done it.*

'Faller', couple household with children, aged 30-49, South East

While our depth interviews conveyed the nuance of the key motivations to enter self-employment, they also underlined their multiplicity. Our interviewees typically had numerous motivations for entering self-employment. In this regard, one of the most striking findings to emerge from our depth interviews was that no interviewee cited only negative motivations for entering self-employment. In particular, we found that while many interviewees started out in self-employment with wholly positive motivations, and others with both positive and negative motivations, none started out with wholly negative motivations. For example, even the interviewee discussed above as having the strongest negative motivations for entering self-employment –

who described herself as being “forced into doing it” – nevertheless also highlighted the attraction of having more flexibility to work around caring for children.

### Trigger events

Individual motivations go a long way in explaining why individuals become self-employed. But our depth interviews indicated that they are not the whole story. For a significant proportion of our interviewees, starting out in self-employment was associated with experiencing a ‘trigger event’.

Trigger events are incidents which prompted individuals to recognise self-employment as an option at a particular moment in time. While motivations help to explain why individuals become self-employed, they are generally not time-specific – for example, wanting more autonomy or higher earnings.

Trigger events cited by interviewees fell into one of two categories:

- **Experiencing a major life event**, such as redundancy or family separation
- **Receiving new advice or information**, for example, from a friend or family member

The most commonly cited major life event among interviewees was redundancy. A number of our interviewees were made redundant in a previous role as an employee. This change in circumstances prompted them to consider self-employment as an option. Alongside redundancy, other trigger events raised by our interviewees included graduation from university and divorce. For one of our interviewees, a self-employed kickboxing instructor, the move into self-employment was triggered by his development of a health condition. Formerly employed as a chef, he developed a skin condition which ended his catering career and prompted him to consider alternative means of employment.

While many of these trigger events were negative for the individuals concerned, this did not entail that they necessarily had negative motivations for entering self-employment. Many of our interviewees who were led to consider self-employment in

## Standing alone?

light of a redundancy had very positive motivations for self-employment and did not express any sense of being forced into it. This underlines the necessity of distinguishing trigger events from motivations.

We found that interviewees for whom redundancy was a trigger event for entering self-employment were primarily ‘fallers’ – individuals that had formerly been self-employed in a low income household, but had since ceased self-employment. This indicates that the trigger event associated with entering self-employment may be an important guide as to the future success of an individual in self-employment. More specifically, redundancy leading to self-employment may be associated with not being successful in self-employment. This warrants further research.

While many trigger events were the significant life events described, others were relatively straightforward instances of receiving advice or new information. One interviewee who was self-employed as a coordinator of foreign exchanges for schools had the role suggested to her by a friend. While she had had some experience working with children, the suggestion was quite unexpected, but one she decided to pursue. In another case, an interviewee, formerly employed as a recruitment consultant, was prompted to consider self-employment after realising that she could make more money if she cut out her employer:

*I had a really good month. I remember seeing my pay-slip and thinking: ‘God I’ve made all this money. It’s my client. I’ve made the company X amount... all that hard work and I’m not seeing as much as I want to see’.*

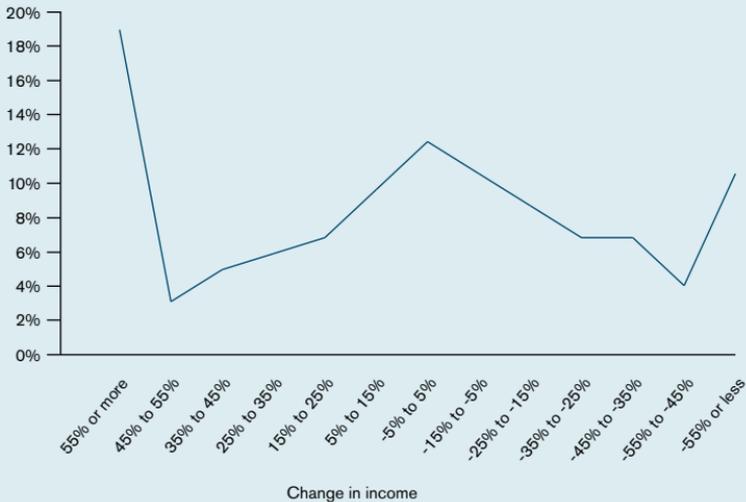
‘Flyer’, couple household, aged under 30, London

## Support received

Receiving support can be critical for individuals starting out in self-employment and can represent a key enabling factor for those in low income households in particular (support received during self-employment is discussed in Chapter Six). Transitioning into self-employment is associated with large shifts in household income and our analysis of Understanding

Society finds that while some households make big income gains, others see substantial drops in income. Ten percent of individuals entering self-employment experience a drop in household income of more than 55% in their first year. A quarter experience a drop of 25% or more. This is shown in Chart 4.2.

**Chart 4.2. Change in household income in first year of self-employment compared to previous year**



Source: *Understanding Society Survey, Waves Three and Four*

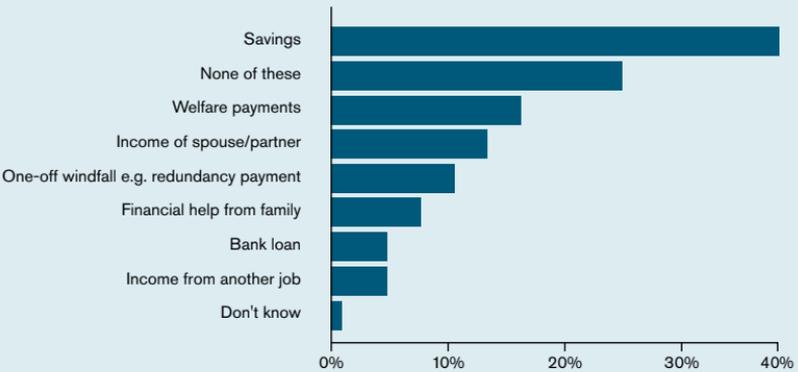
In our depth interviews, we found that support received when starting out in self-employment was wide ranging, broadly captured by three main types:

- **Financial.** Individuals were supported by their existing savings, welfare benefits, or other forms of financial support.
- **Practical.** Individuals received in-kind support, such as use of (or reduced cost of) premises or equipment.
- **Informational.** Individuals received guidance and mentoring on starting up a business.

## Standing alone?

In our polling, we sought to quantify which forms of support are most common among self-employed individuals in low income households when starting out. Chart 4.3 illustrates the forms of financial support received. The most common form of financial support those in low income households had when starting out in self-employment was existing savings (40%). Seventeen percent received state benefits and 14% were supported by the income of a spouse or partner. Only 5% took out a loan from a bank and 26% did not have any financial support.

**Chart 4.3. Financial support received when starting out in self-employment, according to self-employed individuals in low income households**



Source: ComRes

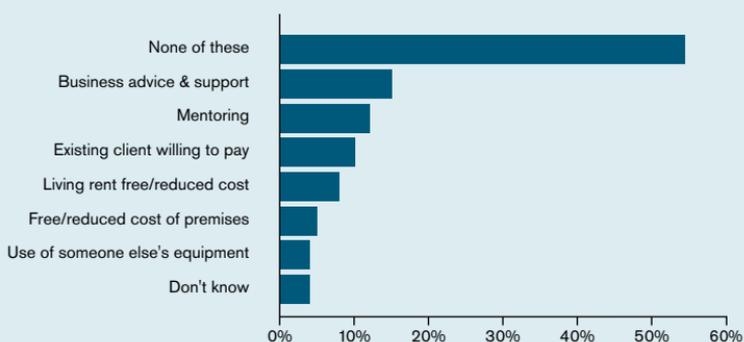
Base: 243 self-employed individuals in low income households

We found some differences in financial support received by self-employed individuals in low income households depending on gender. Women were more likely to have been supported by the income of a spouse or partner (23%) than men (9%). On the other hand, women in low income households were markedly less likely to have had savings (29%) to draw on than men (46%).

Compared to financial support, those in low income households were less likely to have received either practical or informational support at the outset of self-employment. Whereas 26% of respondents had not received any forms of financial support, 54% had not received any of the listed forms of practical or informational support.

Of practical and informational forms of support, the most common were informational: business advice and support (15%) and mentoring (12%). The most common form of practical support was having an existing client willing to provide work (10%). This is shown in Chart 4.4.

**Chart 4.4. Practical or informational support received when starting out in self-employment, according to self-employed individuals in low income households**



Source: ComRes

Base: 243 self-employed individuals in low income households

Support comes in a variety of forms, but also from a variety of sources. In our depth interviews, the following were cited as sources of support:

## Standing alone?

- The family
- Wider social network, including friends and colleagues
- The state
- Individuals' existing resources

The family was most commonly raised as a source of support when moving into self-employment in our depth interviews. Occasionally, this meant direct financial support to help with one-off costs, for example the cost of converting a shed into an office or other pieces of equipment.

*My parents occasionally helped me out if I needed something big like a new computer or something.*

'Flatliner', couple household, aged under 30, London

As well as financial support, the family was the major source of practical support. In a number of cases, interviewees had parents or other family members who were or had been self-employed and so saw this as a natural avenue for advice and guidance. One interviewee, a self-employed DJ had a father in the same industry, similarly self-employed. In other cases, the family was mentioned more generally as a key source of moral support.

*Mental support and encouragement; that's a big part of it. A good family base around you is clearly a benefit.*

'Flyer', couple household with children, aged 40-49, rural

An existing social network – friends and business connections – came through strongly in our depth interviews as a vital source of support for many starting out in self-employment. One interviewee who was starting out as a self-employed kickboxing instructor explained that teammates had lent equipment while a solicitor friend helped with covering his liability. A contact then helped with attaining a coaching licence. Another interviewee raised business clubs as a way in which he had sought to build a social network early on and assist with an initial customer base.

The state is also a significant source of support for those starting out in self-employment who reside in a low income

household. Some of our interviewees who had previously been unemployed received support and advice through a Jobcentre Plus (JCP) upon entering self-employment and were positive about this. One was sent by their JCP on a day course on starting your own business. The state offers particular support for those moving into self-employment from unemployment. The New Enterprise Allowance (NEA) enables such individuals to claim a weekly allowance and offers a business mentor to provide guidance with business plans. Since 2011, there have been 124,540 New Enterprise Allowance mentor starts.<sup>56</sup>

Welfare benefits were cited as a source of support when starting out by 17% of self-employed individuals in low income households in our polling. Our analysis of Understanding Society found that this group are more likely to claim benefits (42%) than either self-employed individuals in higher income households (36%) or employees in low income households (38%).

Finally, many individuals drew on their wider resources or experience as a source of support in order to make self-employment feasible when starting out. For example, one individual who had formerly been an employee in a concierge business built up a network of clients which he was able to draw upon when he started his own business in the same industry. A number of interviewees had undertaken other employment in order to make ends meet when first self-employed. Where this occurred, the extra employment was not related to their sector of self-employment. One of our interviewees, a musician who taught and performed, undertook waitressing upon becoming self-employed in order to support herself.

While it may be tempting to think that self-employed individuals who are also employed in a secondary capacity are more hesitant or less committed to self-employment, our qualitative evidence suggests quite the opposite. Interviewees who were employed in a secondary capacity when starting out in self-employment saw this not as a means of hedging their source

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56. Department for Work and Pensions, "Great Britain New Enterprise Allowance Quarterly official statistics: April 2011 to December 2014", [https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/416178/New\\_Enterprise\\_Allowance\\_Official\\_Statistics\\_Mar15.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/416178/New_Enterprise_Allowance_Official_Statistics_Mar15.pdf) (2014).

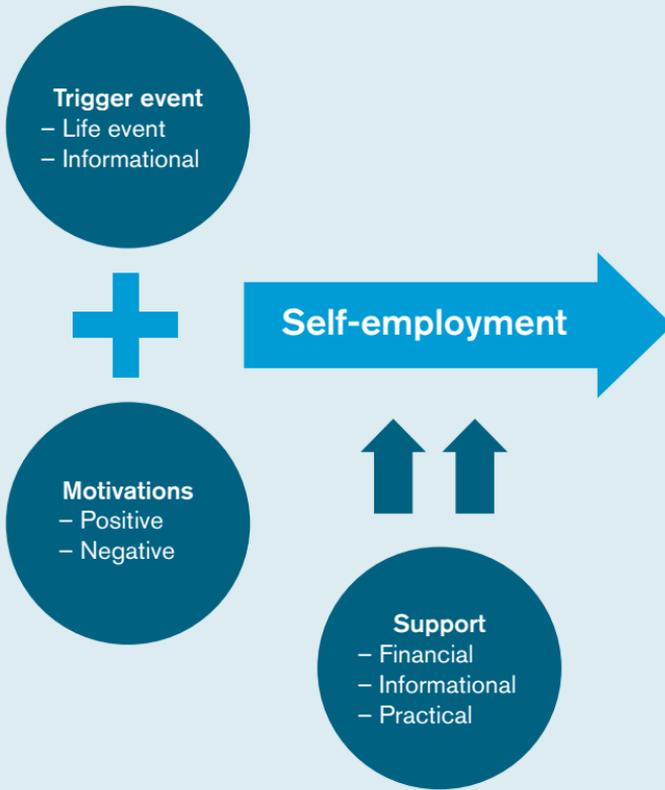
## Standing alone?

of employment or providing an alternative option, but as an essential means of supporting their self-employment and making it financially feasible. As one put it, she was “quite desperate” and so additional employment was essential.

It is worth underlining that these different forms and sources of support are often continually important to self-employed people, not just when they are starting out. Forms and sources of support during self-employment are explored in more detail in Chapters Five and Six.

Individuals’ motivations and trigger events are critical to their experience of moving into and starting out in self-employment in a low income household. The support they receive is often a key enabling factor. Taken together, these constitute the key ingredients for starting out in self-employment, as depicted in Figure 4.1.

Figure 4.1. The key ingredients of starting out in self-employment



## Being self-employed

Having explored experiences associated with entering and starting out in self-employment in the previous section, in this section we turn to experiences associated with being self-employed. We discuss job satisfaction, ambitions and key challenges.

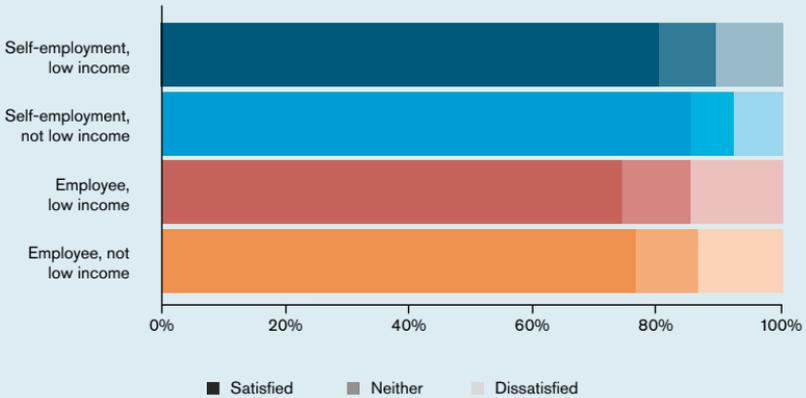
### Job satisfaction

Our analysis of Understanding Society finds that self-employed individuals in low income households are overwhelmingly satisfied with their job (80%). While they are a little less likely to be satisfied than self-employed individuals not in low income households

## Standing alone?

(85%), they are more likely to be satisfied than employees in low income households (74%) and those not in low income households (77%). This is shown in Chart 4.5.

**Chart 4.5. Job satisfaction, by employment type and by household income**



Source: *Understanding Society Survey, Wave Four*

The finding that household income has little impact upon satisfaction rates with self-employment fits with existing evidence. The Royal Society of Arts measured job satisfaction for self-employed individuals by individual earnings and found no significant difference between those self-employed individuals earning below the equivalent of the National Minimum Wage and those earning above it.<sup>57</sup>

When it came to the experience of being self-employed, the aspects most emphasised by our interviewees were autonomy and flexibility. There was a clear sense that self-employment was an empowering experience which put them in control. One declared that:

57. Benedict Delloit and Howard Reed, "Boosting the living standards of the self-employed" (2015), 22.

*I'm so grateful that I'm self-employed because I'm relying on myself.*

'Flyer', couple household, aged 50+, South East

As described in a previous section, autonomy and flexibility are also central motivations for individuals entering self-employment. In this regard, it would seem that the key motivations for entering self-employment and experiences of self-employment coincide.

Of course, being self-employed in a low income household does bring considerable challenges. Both our polling and depth interviews revealed common challenges relating to financial resilience, being treated equitably by government and private organisations, and boosting business activity. The different key challenges are outlined later in this chapter. Nevertheless, the existence of challenges should not be taken as indicative of a lack of satisfaction with employment status more generally on the part of self-employed individuals in low income households.

This is an important finding as *prima facie* low household income might be expected to be associated with a significantly lower rate of job satisfaction for the self-employed. The evidence however demonstrates that this is not correct. There do appear to be groups of self-employed people who are less satisfied. For example, recent Citizens Advice research has found that self-employed people who may be inappropriately self-employed – who work in roles that would likely be judged by an employment tribunal to be an employee role – are less likely to be satisfied with self-employment.<sup>58</sup>

While self-employed individuals in low income households tend to be positive, our depth interviews enabled us to pinpoint instances where this was not the case. Our 'fallers' had been forced to leave self-employment and were naturally far less positive about their experience. The most common complaint related to a lack of financial security and volatility of income. Many explained that leaving self-employment and becoming

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58. Citizens Advice, "Neither one thing nor the other", (2015), 11.

## Standing alone?

employed with a company instead had meant greater security and stability, despite their household income changing little. One interviewee was formerly self-employed as a PA to a marketing company but had since moved into employment with a travel company. She explained this change:

*I wanted to work for someone where there was a pension available. I haven't paid in since my children and want to get paying into that again. I wanted the stability of getting back into an employed company where I could get my career back again. I wanted my holidays paid and all of that as well.*

'Faller', couple household with children, aged 30-49, London

Even for our 'fallers' though, a number said that they would consider returning to self-employment in the right circumstances.

*It was unstable, but I'll probably end up doing another self-employed role anyway. I like to do something for myself.*

'Faller', single with children, aged 50+, South East

## Ambitions for self-employment

As with other forms of employment, self-employed individuals in low income households have a range of professional ambitions. From our depth interviews we identified four main kinds of ambitions held by self-employed individuals in low income households. We found that our interviewees fell into one of four distinct groups: 'builders', 'sustainers', 'opportunists' and 'drifters'. This typology captures the main ambitions which self-employed individuals in low income households have for self-employment.

**Figure 4.2. Different groups of self-employed people in low income households and their aspirations**



‘Builders’ had ambitions to expand their business significantly beyond its current level, either through investment in new capital, hiring new employees or both. One interviewee wanted to work towards opening a chain of outlets. Another had ambitions to expand overseas. ‘Builders’ were the most ambitious and the most entrepreneurial, focused on developing a successful commercial operation. The majority of our ‘flyers’ – individuals who had transitioned from a low household income to a higher income while self-employed – were clearly ‘builders’.

‘Sustainers’ had more modest ambitions. While they still wished to develop their business, the aim was to move towards self-employment that would reliably support themselves and their families. The ambition was a sustainable form of self-employment, or as one interviewee put it, one which “maintains itself”. As such, many interviewees spoke about the importance of a reliable client base. By contrast, there was less direct emphasis upon financial success.

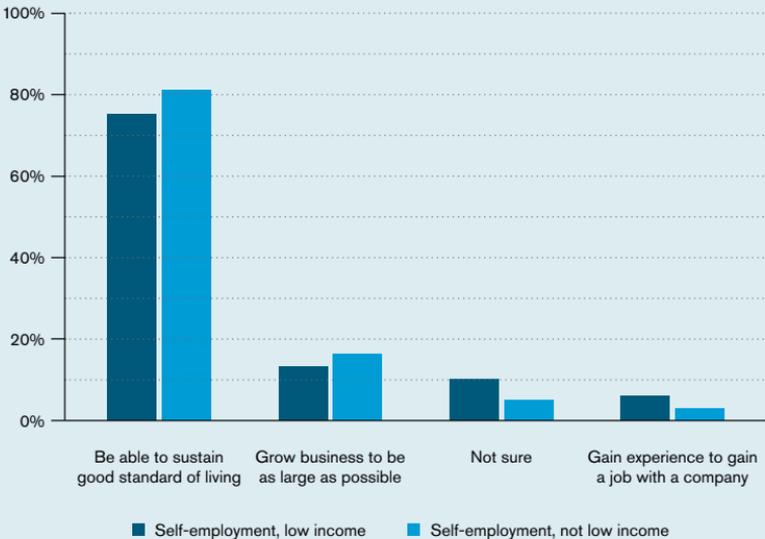
‘Opportunists’ saw self-employment as a means to some other employment outcome. The ambition was to use self-employment as a stepping stone in one way or another. For example, one of our interviewees saw self-employment as enabling him to undertake part-time study with the Open University, opening up other employment opportunities.

## Standing alone?

Finally, a few interviewees had very little sense of what they wanted to achieve in the future through self-employment and were unsure of their aspirations. We call this group ‘drifters’.

We tested the composition of these groups through our polling, and found ‘sustainers’ to be the largest grouping by a very large margin. Seventy five percent of self-employed individuals in low income households say that their ambition for self-employment is being able to sustain a good standard of living (‘sustainers’). By contrast, 13% say that it is to grow their business to be as large as possible (‘builders’); 10% are not sure (‘drifters’) and 6% say that it is to gain experience (‘opportunists’). There is a similar distribution of responses amongst self-employed individuals not in low income households, as Chart 4.6 demonstrates. This indicates that the aspirations and ambitions of those in low income households do not significantly diverge from those in higher income households.

**Chart 4.6. Ambitions for self-employment, according to self-employed individuals, by household income**



Source: ComRes

Base: 1,034 self-employed individuals

The significant proportion of self-employed individuals in low income households who are ‘sustainers’ fits with existing evidence on the attitudes and aspirations of self-employed people. While the terms “self-employment” and “entrepreneurship” are sometimes used interchangeably, a recent poll found that only a third of self-employed people identify themselves as an entrepreneur.<sup>59</sup> Furthermore, as discussed in Chapter Three, only a minority of self-employed individuals describe themselves as “business owners”.

Thus, for most self-employed individuals in low income households, the aspiration is not first and foremost to become entrepreneurs or to emulate high-profile business people. Of course, they aspire to be successful, but for many, success means being able to sustain a reasonable standard of living rather than building up a business.

## Challenges

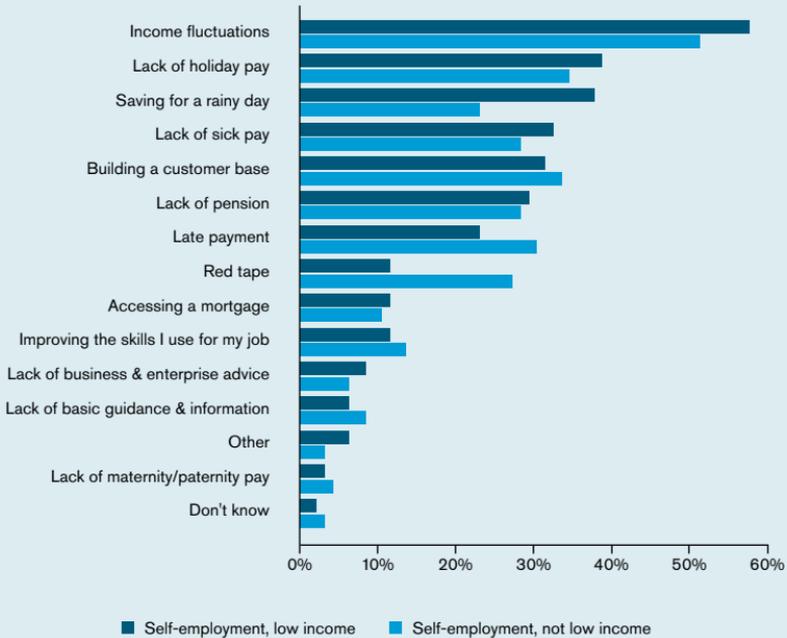
Self-employment is a positive experience for most of those in low income households, but it also brings challenges. Compared to employees, self-employment entails different employment rights, restricted benefit eligibility and a separate tax code. Self-employed individuals lack the wider support employees receive through their workplace and employer. They also have the responsibility and challenge of starting, managing and developing a business of their own.

In our polling, we sought to quantify which challenges associated with self-employment are most significant. We asked respondents about the three main challenges they faced in their job. The most widely cited challenge amongst self-employed individuals in low income households was monthly income fluctuations (55%). This was followed by the lack of holiday pay (37%) and saving for a ‘rainy day’ (36%). The full results are shown in Chart 4.7 below.

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59. Resolution Foundation, “The state of living standards”, <http://www.resolutionfoundation.org/wp-content/uploads/2014/08/The-State-of-Living-Standards-ResolutionFoundation-Audit2014.pdf> (2014), 19.

**Chart 4.7. Main three challenges in job, according to self-employed individuals, by household income**



Source: ComRes

Base: 1,034 self-employed individuals

There are some significant differences between self-employed individuals in low income households and those in higher income households with regard to challenges faced. Those in low income households were more likely (36%) to identify saving for ‘a rainy day’ as a challenge than those not in low income households (22%). On the other hand, those in low income households were less troubled by rules and regulations, ‘red tape’ (11%), than those in higher income households (26%).

We identify two broad types of challenges:

- Financial resilience
- Accessing advice and training

In subsequent chapters we explore these two types of challenges in detail. Challenges relating to financial resilience are discussed in depth in Chapter Five. Focusing on these challenges is important in part because they came through in our depth interviews and polling as particularly pressing for self-employed individuals in low income households. Income fluctuations, saving for ‘a rainy day’ and lack of sick pay were all regarded as major challenges by this group in our polling, and each relates to or bears upon the financial resilience of individuals. Furthermore, challenges relating to financial resilience also have clear implications for policymaking and in Chapter Seven we make policy recommendations aimed at addressing them.

Chapter Six focuses on challenges relating to accessing advice and training. Accessing advice in particular came through in the majority of our depth interviews with self-employed individuals and while these challenges were not viewed as the most important in our polling, they are relevant to self-employed individuals across different backgrounds and ambitions. Crucially, accessing quality advice and training is key to boosting business activity. In an economy in which one in seven workers are self-employed, this is a vital goal for policymaking. Chapter Seven includes policy recommendations aimed at addressing these challenges.

In this chapter we have explored the experiences of self-employed individuals in low income households when they start out in self-employment and during self-employment. Broadly, these individuals have positive motivations for entering self-employment and commonly benefit from different forms of support when starting out – most commonly financial support. Once more established, self-employed individuals in low income households are overwhelmingly satisfied with their job, indeed more satisfied on average than employees. The vast majority of self-employed individuals aspire to securing a reasonable standard of living, rather than building up their business to be as successful as possible – they are mostly ‘sustainers’. They also face a wide range of challenges in their job, with challenges relating to financial resilience such as income fluctuations seen as especially problematic. In the following chapters, we explore some of these challenges in more detail.

## Chapter 5: Financial resilience

At the end of the previous chapter, we outlined the most important challenges for self-employed individuals in low income households. In this chapter, we explore in detail those challenges related to financial resilience. Ensuring that individuals are financially resilient and are able to cope with income shocks is important for public policy. Furthermore, as we shall discuss, building financial resilience can be particularly problematic for those self-employed individuals in low income households.

We begin by explaining how self-employed individuals in low income households are particularly exposed to income volatility and how this is exacerbated by late payment. Subsequently, we explore how, as well as being more exposed to income volatility, they are also poorly positioned to cope. This is attributed to limited state welfare provision as well as household circumstances.

### **Income volatility and late payment**

The financial resilience of self-employed individuals is affected by their greater exposure to income volatility. While fluctuations in income affect a wide variety of households, self-employed people are especially exposed. Employees can generally be assured of steady earnings as long as they are in work – even if earnings are only modest. By contrast, many self-employed individuals experience very significant volatility in their earnings as business ebbs and flows. Often this will affect those in more seasonal sectors such as agriculture. One of our interviewees who was a taxi driver explained that certain months in the year tended to be slower:

*Two times in the year are really bad: it's January and then August when kids are on their summer break.*

'Flyer', couple household with children, aged 30-49, rural

It is not only those working in seasonal sectors though. One of our interviewees, a former self-employed graphics designer, described how work levels tended to be “very up and down”. Indeed, the majority of our ‘faller’ interviewees – individuals formerly self-employed in a low income household but having since left self-employment – cited fluctuating business demand and associated income volatility as a reason for their leaving self-employment.

Of course, greater income volatility of this sort is an inherent risk of self-employment, particularly in certain sectors. It is not possible to eliminate this risk. The problem which should concern policymakers however, is the way in which late payment – the practice of remunerating for work later than agreed – exacerbates these already higher levels of income volatility. This is not a fair practice or a fair result for those affected.

In our polling, 22% of self-employed people in low income households reported late payment as one of the three main challenges they face in their job, as indicated in Chart 4.7. This is consistent with existing evidence. A previous survey found that a third of freelancers say that late payment has had a significant impact on their business.<sup>60</sup>

In undermining their financial resilience, late payment can have damaging consequences for the business activity of the self-employed in low income households. One of our interviewees who was self-employed as a furniture refurbisher reported that late payment would sometimes limit their ability to invest in stock, particularly during the busy Christmas period.

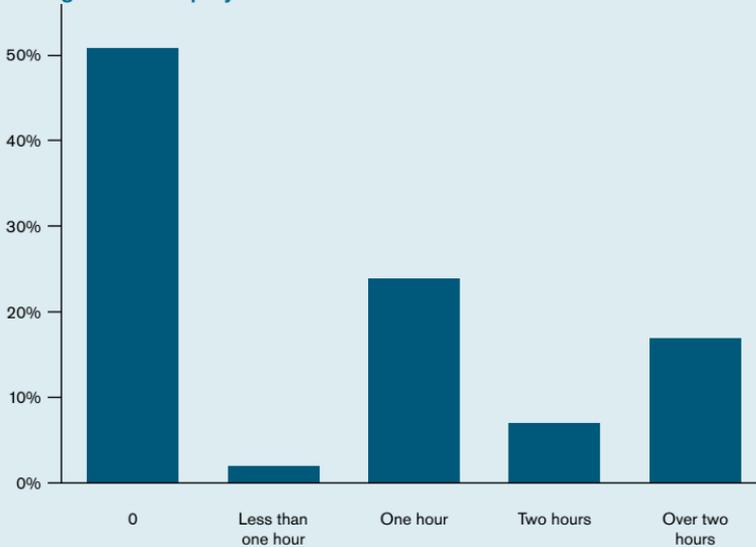
Late payment can also mean a significant added burden in chasing payments. In our polling, we explored the average time spent by self-employed individuals in low income households

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60. Department for Business, Innovation and Skills, “Building a responsible payment culture”, [https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/315462/bis-14-793-building-a-responsible-payment-culture-government-response.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/315462/bis-14-793-building-a-responsible-payment-culture-government-response.pdf) (2014); Duncan O’Leary, “Going it alone” (2014), 50.

chasing payments, as shown in Chart 5.1. Forty eight percent spent on average an hour or more per week chasing payments; 17% spent on average over two hours per week.

**Chart 5.1. Time spent chasing payments from customers, according to self-employed individuals in low income households**



Source: ComRes

Base: 243 self-employed individuals in low income households

These figures broadly reflect secondary evidence on the time spent by small business owners chasing payments. According to the Federation of Small Businesses, 53% of small business owners spend between one and six hours chasing invoices each week.<sup>61</sup>

A key finding from our depth interviews was that the challenge of late payment takes different forms for different self-

61. Federation of Small Businesses, "Late payment", <http://www.fsb.org.uk/LegacySitePath/policy/rpu/london/assets/late%20payment%20july%202011.pdf> (2011).

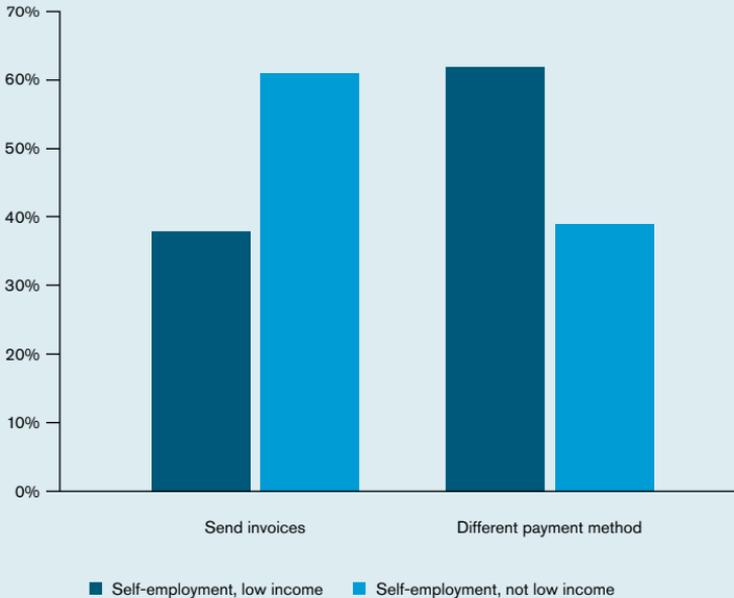
## Standing alone?

employed individuals in low income households, depending upon the kind of relationship they have with their clients. The different types of financial relationships they have are outlined in Box 5.1.

### Box 5.1. How are self-employed individuals in low income households paid?

In our polling, we found that 38% of self-employed individuals in low income households send invoices compared to 61% of those in higher income households. The majority of those in low income households (62%) operate a different payment method, such as getting paid immediately or through a standing order. These figures are illustrated in Chart 5.2.

**Chart 5.2. Payment method, according to self-employed individuals, by household income**



Source: ComRes

Base: 1,034 self-employed individuals

One group of interviewees had more formalised financial relationships with clients and operated with an agreed payment date for work undertaken. These individuals tended to be those who provided goods or services primarily for other businesses and issued invoices for payments. For this group, late payment was a matter of a specific payment date not being met, and meant having to chase or re-issue invoices. One interviewee would invoice her main client for the hours she worked at the end of the month but found that:

*...they hit a few difficulties and they kept paying me later and later and I had to keep chasing their accounts department to be paid. It became difficult and they were owing me two months' worth of salary.*

'Faller', couple household with children, aged 30-49, South East

There was a second group of interviewees however who had less formalised relationships with clients. They often provided services primarily to individuals rather than other businesses, for example a professional music teacher or a fitness coach. While late payment was still raised, it was a less concrete matter and did not always pivot upon a specific payment date.

In recent years, measures aimed at tackling late payment have focused on cases where an agreed payment date has not been met. The last Labour government introduced a statutory right for businesses to claim interest on the payments in such cases. Furthermore, the Prompt Payment Code was established in 2008 as a voluntary set of payment standards which companies choose to sign up to. This commits them to payment within the terms agreed at the outset of the contract and to not attempting to amend the payment conditions retrospectively. There are currently over 1,700 signatories.<sup>62</sup> Under the current Conservative Government there has been a focus on mediation services to

62. Chartered Institute of Credit Management, "Prompt payment code", [http://ppc.promptpaymentcode.org.uk/ppc/ppc\\_signatory.a4d](http://ppc.promptpaymentcode.org.uk/ppc/ppc_signatory.a4d).

tackle the issue of late payment. The Enterprise Bill currently before parliament, establishes a Small Business Commissioner who will act to mediate payment disputes.<sup>63</sup> In particular, the commissioner will act to investigate complaints and address disputes between businesses without recourse to expensive legal proceedings.

While these measures are important however, they do not apply to cases where business relationships are less formalised and where no specific payment date has been agreed. This is particularly relevant for self-employed individuals in low income households, since 62% of them do not invoice customers.

### Eligibility for benefits

As described in the previous section, the self-employed are particularly at risk of income volatility. Not only are they particularly at risk however, they are also poorly positioned to cope with income shocks.

Households need to be able to manage fluctuations in their income as a result of unpredictable events. A spell of unemployment or a bout of illness can have dramatic implications for household income. Even events which individuals exert greater control over, such as having children, can entail sharp changes in a household's financial circumstances.

Compared to other groups however, self-employed individuals in low income households are more likely to be in a weak position to manage these shocks. One of the main sources of financial resilience in Britain today, alongside families, is the welfare state, providing support for individuals who find themselves facing a loss of income. Indeed, its architect, Sir William Beveridge, conceived of Britain's post-war welfare state as "first and foremost, a plan of insurance" in case of loss of income.<sup>64</sup> Yet, while this plan brought greater security to millions of employees, in its initial implementation the self-employed were

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63. Department for Business, Innovation and Skills, "A small business commissioner", [https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/450695/BIS-15-438-a-small-business-commissioner.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/450695/BIS-15-438-a-small-business-commissioner.pdf) (2015).

64. William Beveridge, *Social insurance and allied services* (London: HMSO, 1942).

excluded in large part. In particular, the self-employed had no access to protection in case of unemployment or short illness, which was available only to employees.<sup>65</sup>

Today, the self-employed are still treated differently to employees with regard to state welfare. There are a number of benefits designed to help individuals cope financially with a major life event which are available for employees, but a number of these are either denied or restricted for those who are self-employed.

In its 2015 Small Business Manifesto, the Conservative Party committed to a review of the “disadvantages” faced by the self-employed.<sup>66</sup> This independent review, led by Julie Deane, CEO of the Cambridge Satchel Company, was published in 2016 and called for “equal treatment and recognition” of the self-employed from government.<sup>67</sup>

Of the disadvantages faced by the self-employed, among the most important relate to state welfare. Self-employed individuals are not eligible for, or get less of, key benefits relating to illness, unemployment and having children. These include Statutory Sick Pay, Statutory Maternity Pay, Statutory Paternity Pay, Contribution-based Jobseeker’s Allowance and Holiday Pay.

### Statutory Sick Pay

In times of illness, self-employed people have no access to Statutory Sick Pay (SSP) which is paid at a rate of £88.45 per week for up to 28 weeks by employers.<sup>68</sup> Instead, self-employed people who are ill must rely upon Employment and Support Allowance (ESA). In the 2015 Budget, the Government announced that the value of ESA (for those in the Work-Related Activity Group) is to be aligned with Jobseeker’s Allowance, which is currently £73.10 per week for new claimants aged over 25. Furthermore, ESA

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65. Social Security Advisory Committee, “Social security provision and the self-employed”, [https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/358334/Social\\_security\\_provision\\_and\\_the\\_self-employed\\_\\_FINAL\\_24\\_SEPT\\_\\_.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/358334/Social_security_provision_and_the_self-employed__FINAL_24_SEPT__.pdf) (2014), 21.

66. The Conservative Party, “Our small business manifesto”, [http://issuu.com/conservativeparty/docs/small\\_business\\_manifesto\\_low](http://issuu.com/conservativeparty/docs/small_business_manifesto_low) (2015).

67. Julie Deane, “Self-employment review”, [https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/500320/ind-16-2-self-employment-review.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/500320/ind-16-2-self-employment-review.pdf) (2016).

68. Prior to 2014, the cost of Statutory Sick Pay to employers was reimbursed by the state in certain circumstances. This is no longer the case.

## Standing alone?

claimants (those not in the Support group) are subject to forms of work-focused conditionality and can be sanctioned, unlike those on SSP.

Concern about coping with illness was raised by a number of our interviewees.

*The only time I would really need support is if I became not well. I don't know what would happen; it's the only thing that does worry me.*

'Flyer', couple household with children, aged 30-49, rural

One 'faller' – an interviewee formerly self-employed in a low income household but having since left self-employment – cited the lack of paid sick leave as a key reason for leaving self-employment:

*I needed to get the income back up and running and it was a lot of pressure at the time. You don't get paid holidays or paid sick leave. I needed consistency.*

'Faller', couple household with children, aged 30-49, London

Another self-employed interviewee explained that he was planning to become a 'platinum member' of a taxi drivers' association in order to help insure himself against illness. Although the cost of this membership was an obstacle, it would provide generous support if he were to fall ill.

## Parental pay

Self-employed people also receive less state support following the birth of their children. While many employees are eligible for Statutory Maternity Pay (SMP), self-employed people are eligible only for the less generous Statutory Maternity Allowance (SMA). While SMP pays 90% of previous earnings for six weeks followed by £139.58 or 90% of previous earnings (whichever is lower) for up to 33 weeks, SMA pays only £139.58 for 39 weeks. To compound this, self-employed men are not eligible for Statutory Paternity Pay. Shared Parental Leave and Pay – which allows parents to share leave and pay so as to have more choice over how they look after their children in the year following birth – is also denied to self-employed parents.

### Unemployment benefits

Self-employed people also have reduced access to benefits if they become unemployed. They are not eligible for Contribution-based Jobseeker's Allowance, which provides support for employees who become unemployed and have a record of National Insurance contributions. Contribution-based Jobseeker's Allowance has far fewer recipients than Income-based Jobseeker's Allowance, which comprises the vast majority of the total caseload, and many self-employed individuals who become unemployed and are not eligible for Contribution-based Jobseeker's Allowance will be eligible for Income-based Jobseeker's Allowance instead. Nevertheless, it is another example of how self-employed people are locked out of benefits available for employees.

### Holiday pay

There is no Holiday Pay for self-employed individuals. Employees have a statutory entitlement to 5.6 weeks' paid holiday per year (including Bank Holidays), with entitlement for part-time employees reduced depending upon hours worked. Though this is paid by employers and so not strictly a 'state benefit' similar to the examples above, it is a statutory requirement for employers to offer Holiday Pay, and there is no corresponding entitlement for those who are self-employed.

Britain's welfare system does not keep self-employed people as secure as employees and this inevitably affects those in low income households, who tend to have fewer resources to cope, particularly severely. As Chart 4.7 showed, a lack of holiday pay (37%) and a lack of sick pay (31%) were widely identified by self-employed individuals in low income households as one of their main three challenges. Those in higher income households were a little less likely to identify them, 33% and 27% respectively. Only a very small proportion of self-employed individuals in low income households (3%) saw a lack of maternity or paternity pay as a main challenge. However, this should be treated with caution. Holiday pay and sick pay are 'universal' benefits in the sense that they are potentially relevant for any working age individual who falls ill or wishes to take holiday leave, whereas maternity or paternity pay is

relevant only for individuals in specific circumstances – having a child. This partly accounts for the lower proportion who identify this as a challenge and does not make it any less important for those who do find themselves in need.

### Box 5.2. Universal Credit and the Minimum Income Floor

As well as being excluded from certain benefits, the welfare available for self-employed people is set to be restricted by the implementation of Universal Credit. Universal Credit is a new benefit currently being rolled-out which combines six working-age benefits and tax credits. It is expected to be fully in place by 2020-21.<sup>69</sup> Once fully implemented it will provide the vast majority of means-tested state welfare for both employees and the self-employed.

However, the support which self-employed people can receive through Universal Credit is restricted by a Minimum Income Floor (MIF). MIF is a level of earnings which self-employed individuals are assumed – for the purposes of the benefit – to receive, irrespective of actual earnings. It is set at a level equivalent to a certain number of hours worked at the National Minimum Wage, with the number of hours in individual cases depending on household circumstances such as caring responsibilities. Even if a self-employed person's earnings fall below this level, they won't receive extra payments through Universal Credit to make up the difference.

The design of MIF is intended to prevent Universal Credit being used to prop-up unsuccessful businesses. The logic is that if a self-employed individual is earning below MIF, then self-employment is not the best way for them to be financially independent and the state should not subsidise them as such.

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69. Office for Budget Responsibility, "Economic and fiscal outlook", [http://cdn.budgetresponsibility.independent.gov.uk/EFO\\_November\\_\\_2015.pdf](http://cdn.budgetresponsibility.independent.gov.uk/EFO_November__2015.pdf) (2015), 136.

However, while MIF serves an important purpose, it has the consequence of highly limiting the support available to self-employed individuals in low income households. It means that this group of people who are particularly likely to see their actual earnings temporarily drop below MIF, perhaps due to fluctuations in business demand, do not receive additional support in such circumstances and are less able to cope with income shocks as a result. As MIF applies only to the self-employed, self-employed individuals who earn below their MIF will receive less payment through Universal Credit than an employee on the same income.

The Government has sought to reduce the impact of MIF for new businesses by introducing a 'start-up period' of 12 months. In order to support people entering self-employment, MIF will not be applied to claimants during their first 12 months of self-employment. During this time, self-employed claimants will receive higher Universal Credit payments if their income falls below MIF. The start-up period will give newly self-employed people an opportunity to build up a customer base and develop relationships with clients. However, it has been argued that this period is not sufficient to allow businesses to develop and should be extended.<sup>70</sup>

### Household savings

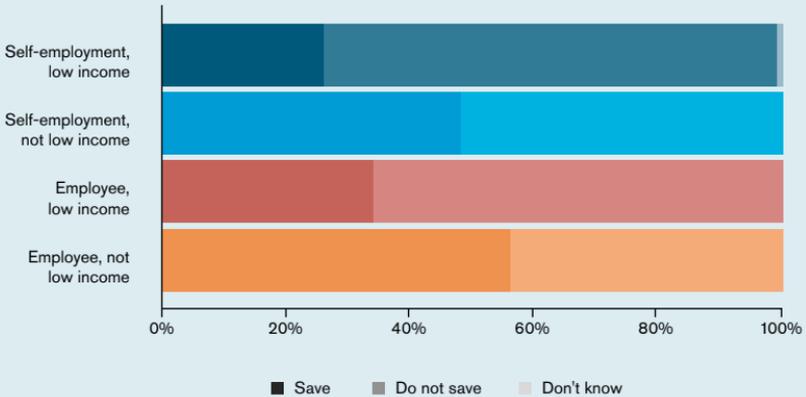
Of course, financial resilience is not merely a matter of the security provided by government, but also the financial circumstances of households themselves. Household savings are crucial in this regard. On this basis however, the evidence once again suggests that self-employed individuals in low income households are poorly placed to manage sudden income shocks. Our analysis of Understanding Society found that they are less likely to be saving part of their income compared to self-employed individuals in higher income households and also employees in low income households. As demonstrated in Chart 5.3, only 26% of self-employed individuals in low income households save, compared to

70. Benedict Dellot and Howard Reed, "Boosting the living standards of the self-employed" (2015).

## Standing alone?

34% of employees in low income households, 48% of self-employed individuals in higher income households and 56% of employees in higher income households.

**Chart 5.3. Saving a proportion of income, by household income and by employment type**



Source: *Understanding Society Survey, Wave Four*

Few of our self-employed interviewees said that they were able to save. Of those who did save, a number saw this as a means for covering future holidays and the lack of income incurred during them. A self-employed DJ and agent described how to go on holiday for two weeks required budgeting the cost in advance and then saving a small amount each week for a whole year to cover costs. In the absence of savings, such breaks from work are not possible for many self-employed individuals.

This is a challenge which affects those self-employed individuals in low income households in particular. In our polling, 36% of this group identified saving for a 'rainy day' as one of their main three challenges. By contrast, for self-employed individuals in higher income households, the corresponding figure was 22%.

Limited savings are exacerbated by high levels of indebtedness. StepChange Debt Charity has found that its self-employed clients –

who earn an average of £1,321 per month after taxes – have an average debt burden 18.6 times their annual income.<sup>71</sup> This is much higher than the average debt burden of their employee clients, which is 4.1 times average annual income. This higher debt burden is, at least in large part, attributable to the capital investment required to start and then to operate one's own business. Nevertheless, a consequence of this is that self-employed people are more likely to struggle to cope with an income shock and manage their debt.

This lack of financial resilience for self-employed individuals in low income households is a challenge which should concern policymakers. Households which cannot manage their debts can quickly become trapped by spiraling interest payments. Worryingly, Citizens Advice recently found that 33% of their self-employed clients sought advice on debt problems – a proportion matched only by their unemployed clients.<sup>72</sup> Furthermore, StepChange Debt Charity has found that 24% of the self-employed clients it provided debt advice to subsequently became unemployed. This is a higher rate than for their employee clients.

### Box 5.3. Pension provision for the self-employed

Financial resilience can also be framed as a longer term challenge about planning for retirement to sustain a reasonable income in old age. Taking this longer view, there are further challenges for self-employed individuals in low income households becoming financially resilient.

On the one hand, self-employed people are set to benefit from the new State Pension which is being rolled-out from 2016. Under previous provision, the National Insurance Contributions of self-employed people conferred only limited eligibility – specifically they were not eligible for a Second State Pension, only the Basic State Pension – compared to the contributions of employees.

71. StepChange Debt Charity, "Struggling strivers: self-employed face highest debt burden", <http://www.stepchange.org/Mediacentre/Pressreleases/selfemployeddebtproblems.aspx> (2013).

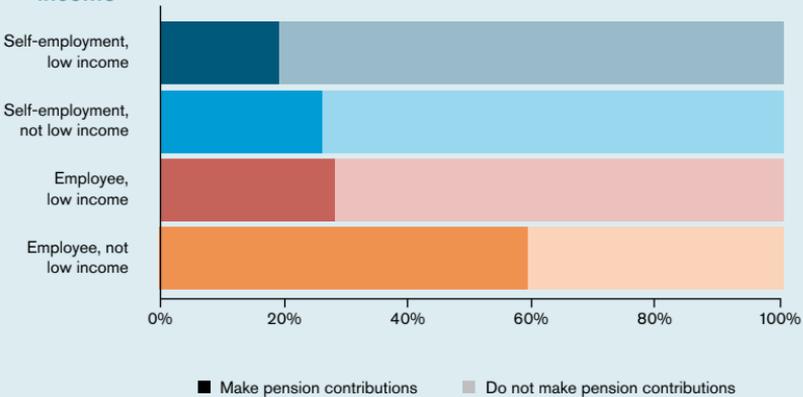
72. Citizens Advice, "Self-employed as likely to have debt problems as unemployed", <https://www.citizensadvice.org.uk/about-us/how-citizens-advice-works/media/press-releases/self-employed-as-likely-to-have-debt-problems-as-unemployed/> (2014).

## Standing alone?

For the new State Pension, National Insurance Contributions from self-employment will be aligned with the contributions of employees.

However, while these changes to the State Pension will benefit self-employed people, private pension contributions amongst the self-employed, particularly those in low income households, are low. Only 19% of self-employed individuals in low income households contribute to a pension, a lower proportion than either employees in low income households (28%) or self-employed individuals in higher income households (26%). This is demonstrated in Chart 5.4.

**Chart 5.4. Pension contributions, by employment type and by household income**



Source: *Understanding Society Survey, Wave Four*

There are a number of possible factors underlying this disparity. First, self-employed people may be especially reluctant to lock their money away in a pension pot as they cannot be as certain of their income stability in the short term as employees.<sup>73</sup> There are also factors particular to the pension system. The self-employed do not

73. IPSE, "Pension policy briefing", <https://www.ipse.co.uk/policy/pensions-policy-briefing> (2015).

have the same incentives to contribute as employees as there are no matching contributions from employers. Furthermore, whereas employees are now increasingly auto-enrolled onto a private pension – staging of auto-enrolment by company size will be complete in 2017 – the self-employed are excluded from this.

Pension auto-enrolment has supported a significant rise in contribution rates, with 49% of private sector employees now contributing to a scheme, up from 32% in 2012.<sup>74</sup> Auto-enrolment for employees has been a success, but as such it has heightened the disparity between the self-employed and employees.

In order to boost contributions rates, the Royal Society of Arts has suggested adapting the ‘behavioural nudge’ of auto-enrolment by including a compulsory question about pension contribution on the tax returns of the self-employed. Moreover, both the Association of Independent Professionals and the Self-Employed and Demos have called for the creation of a new pension scheme for the self-employed that would allow them to access a proportion of their contributions, reducing the risk associated with making contributions in the first place.<sup>75</sup>

In sum, self-employed individuals, and particularly those in low income households, have weak financial resilience – for example, having less or no access to certain state benefits and poor savings rates. In Chapter Seven we make policy recommendations aimed in part at addressing this and boosting levels of financial resilience amongst this group.

74. Department for Work and Pensions, “Pension saving at a record high”, <https://www.gov.uk/government/news/pension-saving-at-record-high> (2015).

75. Duncan O’Leary, “Going it alone” (2014), 47; IPSE, “Pension policy briefing”, <https://www.ipse.co.uk/policy/pensions-policy-briefing> (2015).

## Chapter 6: Accessing advice and training

In this chapter, we explore challenges self-employed individuals in low income households face in accessing advice and training. As discussed below, drawing on advice and training is associated with business growth and therefore boosting its uptake amongst this group should be a priority for policymakers. We discuss in turn the two primary forms of advice self-employed individuals in low income households draw upon: ‘operational advice’ and ‘entrepreneurial advice’. Subsequently, we explore the challenge of accessing training.

### The importance of advice

Starting a business empowers individuals to make decisions and choices themselves. Yet while going it alone can be liberating, it can also be isolating, depriving self-employed individuals of the guidance which they may need to succeed. Whereas employees may receive this from company colleagues and managers, this is not available to self-employed people. Given this, it is not surprising that self-employed individuals in low income households can struggle with accessing advice.

Evidence shows that seeking advice goes hand in hand with business growth. Fast growing small and medium-sized enterprises (SMEs) are more likely to have used external assistance – 48% of those growing by more than 50% in the past three years compared to 40% of SMEs generally. Similarly, SME employers that seek advice exhibit higher growth in sales and employees taken on.<sup>76</sup>

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76. Department for Business, Innovation and Skills, “Research to understand the barriers to take up and use of business support”, [https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/32250/11-1288-research-barriers-to-use-of-business-support.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/32250/11-1288-research-barriers-to-use-of-business-support.pdf) (2011).

Advice is important not just for business matters, but personal matters too. This chapter is primarily focused on the advice self-employed people receive to run and grow their businesses. However, there are some aspects of a person's life – such as access to benefits or financial products – that could be considered a personal matter. As these matters are unique to an individual's status as being self-employed, we also explore these in this chapter.

In our interviews, we found that there are two main types of advice needed by self-employed individuals in low income households.

- **Operational advice.** Basic information about the rules, regulations and the tax and welfare systems associated with being self-employed.
- **Entrepreneurial advice.** Guidance on how to expand a business and make it a long term success.

These two types of advice are explored in depth in this chapter. Admittedly, in our polling only a small proportion of self-employed individuals in low income households cited advice as one of their main challenges. As Chart 4.7 demonstrated, eight percent selected 'a lack of business and enterprise advice' as one of their top three challenges and six percent selected 'a lack of basic guidance and information'. However, the lack of and importance of advice was widely discussed in our depth interviews, thus warranting detailed examination.

### Operational advice

Understanding the rules, regulations and tax and welfare systems associated with being self-employed can be particularly challenging for those starting out in self-employment. In our depth interviews, accessing this kind of advice – operational advice – was typically seen as a priority for those in the early stages of self-employment. A number of specific issues emerged as important: managing tax affairs, accessing benefits and getting insurance.

## Managing tax affairs

The most commonly raised issue related to tax. Interviewees identified understanding the tax system and dealing with self-assessment forms in particular as problematic.

*It's just the information on tax; the tax self-assessment form freaks me out. If that was made simpler then that would be a great thing... That's the element I'm scared of.*

'Faller', couple household with children, aged 30-49, South East

Some of our interviewees paid for external accountants, but these tended to be the 'flyers' – individuals formerly in low income households but having since moved onto a higher income while self-employed. For those in low income households, accountants are an expense beyond the means of many.

The Government is making changes to tax reporting for self-employed people. From 2016, annual tax returns for the self-employed will be replaced by new digital tax accounts.<sup>77</sup> These will allow self-employed individuals to see and manage their tax affairs online and the Government has argued that this will simplify the process of reporting tax. However, individuals will be required to update their accounts quarterly, rather than annually, and there are concerns that this will represent an additional burden for self-employed individuals.<sup>78</sup> It will be important to monitor the effect of these new digital tax accounts on the self-employed.

## Accessing benefits

Advice regarding state welfare and eligibility was also raised by interviewees – a matter particularly important for those in low income households.

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77. HM Treasury, "Budget 2015", [https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/416330/47881\\_Budget\\_2015\\_Web\\_Accessible.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/416330/47881_Budget_2015_Web_Accessible.pdf) (2015), 37.

78. Federation of Small Businesses, "Members express concern about new quarterly tax reporting", <http://www.fsb.org.uk/media-centre/latest-news/2015/12/14/members-express-concern-about-new-quarterly-tax-reporting> (2015).

*It would be really good to have advice about what happens if you get ill – so contextual advice.*

'Flatliner', couple household, aged under 30, South East

One interviewee reported confusion over his Housing Benefit entitlement upon moving into self-employment. He did not realise that his entitlement would depend upon expenses accrued through work, and was surprised to find that he needed to show expenses to his local authority in order to receive Housing Benefit. Housing Benefit and Council Tax Support are administered locally, and while some authorities issue transparent guidelines on self-employment expenses, many do not.

### Box 6.1. The introduction of Universal Credit

The introduction of Universal Credit (as described in Box 5.2) heightens the need for clear advice regarding benefits for the self-employed. Compared to the system of benefits and tax credits it is replacing, Universal Credit includes a number of new features uniquely applicable to the self-employed, including monthly self-reporting of income, attendance of a gateway interview to prove gainful self-employment, and the Minimum Income Floor (MIF). MIF in particular – a level of earnings which self-employed individuals are assumed to attain for the purposes of Universal Credit entitlement, irrespective of actual earnings – may be challenging in this regard. A Department for Work and Pensions study has found that self-employed individuals struggle to understand MIF and how it operates.<sup>79</sup>

### Getting insurance

In our interviews, insurance was also widely discussed. Public liability insures individuals in cases where a member of the public is injured or property damaged in the course of work. While for

79. Department for Work and Pensions, "Self-employment, tax credits and the move to Universal Credit", [https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/197691/rrep829.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/197691/rrep829.pdf) (2013).

## Standing alone?

most self-employed occupations there is no legal requirement to have public liability insurance, a number of interviewees explained that it is expected in many industries with clients demanding it. For example, a music agent explained that:

*To go into most venues you can't just set up your gear. You need your own insurance policy. Some venues have rules where they want equipment to be tested so it won't blow on the night.*

'Flyer', couple household, aged under 30, South East

## Provision of operational advice

It makes sense for operational advice to be largely codified through a single government portal, reducing navigational complexity for often time-constrained self-employed individuals. Currently, extensive information is available on the government's website. This includes information on setting up in self-employment, dealing with tax returns, expenses and benefit eligibility. As well as government resources, organisations such as Citizens Advice also provide considerable online guidance for self-employed people.

Some of our interviewees who had previously been unemployed received support and advice through their Jobcentre Plus (JCP) upon entering self-employment and were positive about this. One was sent by their JCP on a day course on starting your own business. Individuals who move from unemployment to self-employment are able to access the Government's New Enterprise Allowance (NEA). As well as a weekly allowance, NEA offers claimants a business mentor who provides them with guidance as they develop their business plan. Since 2011, there have been 124,540 NEA mentor starts.<sup>80</sup>

Given existing provision, the challenge of accessing operational advice is in large part about awareness rather than availability. Indeed, a 2014 Department for Business, Innovation

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80. Department for Work and Pensions, "Great Britain New Enterprise Allowance quarterly official statistics: April 2011 to December 2014" (2014).

and Skills survey indicated low levels of awareness of government provision amongst SME employers.<sup>81</sup> This point was underlined also in the Deane review.<sup>82</sup> As one of our interviewees put it:

*It needs to be promoted a bit more; you need a step-to-step guide: like how to register online and fill your tax returns.*

‘Faller’, couple household with children, aged 30-49, South East

## Box 6.2. Sources of advice

In Chapter Four, we identified different types of support available to self-employed people as they journey into self-employment: the family, a social network, the state, and a person’s wider resources. We wanted to explore attitudes to these different sources of advice, including some additional ones such as banks and Citizens Advice, when people are self-employed.

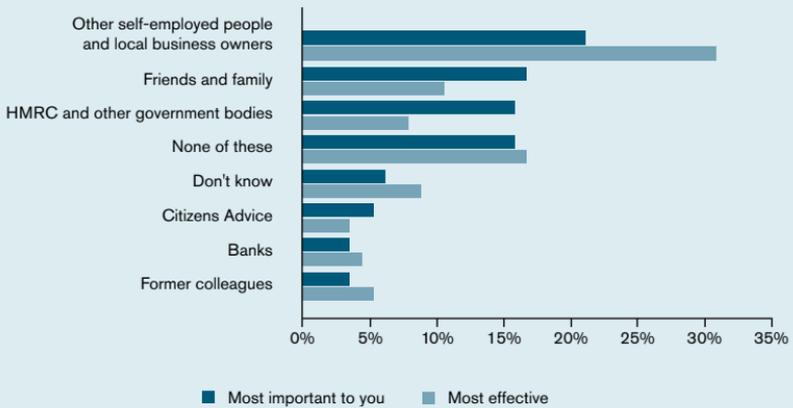
In our polling, we explored the attitudes of self-employed individuals in low income households to these different sources of advice: which source was most important (indicating the source which they most relied on) and most effective (indicating the source they were most impressed with). These results are shown in Chart 6.1 below.

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81. Department for Business, Innovation and Skills, “Small business survey 2014”, [https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/414963/bis-15-151-small-business-survey-2014-sme-employers\\_v1.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/414963/bis-15-151-small-business-survey-2014-sme-employers_v1.pdf) (2014).

82. Julie Deane, “Self-employment review” (2016), 16.

**Chart 6.1. Attitudes to different sources of advice, according to self-employed individuals in low income households**



Source: ComRes

Base: 243 self-employed individuals in low income households

We found that the source of advice which was both most important and most effective was other self-employed individuals and local business owners, with 24% of respondents saying that this was the most important source, and 35% saying that it was the most effective. This demonstrates the value of other self-employed people and local business owners as a source of advice to self-employed individuals in low income households. This should and does inform policy recommendations, as outlined in Chapter Seven.

Family and friends and HMRC and other government departments were the next most important sources – with 19% and 18% respectively reporting this. However, in contrast to the attitudes towards other self-employed people and local business owners, fewer self-employed people in low income households believed that these two sources were effective as compared to important. This was especially true for HMRC and other government departments, where only 9% believed this source was effective.

## Entrepreneurial advice

Operational advice is not the only type of advice self-employed people require. Beyond basic information about how to operate a business, many of our interviewees underlined the importance of knowing how to expand their business and make it a long term success. We call this ‘entrepreneurial advice’ and we found that it was often identified by interviewees as a different kind of need or challenge from operational advice.

*Ongoing support on how to kick-start it and go forward I guess would be helpful. How to build up a catalogue of clients and a customer base.*

‘Faller’, single, aged under 30, rural

As one interviewee put it, what is required is not a series of forms, but an opportunity to explain one’s individual situation to someone and get “help to grow” on that basis. Guidance on marketing, dealing with clients and building networks were all raised as important. Such advice cannot be supplied through a template, but needs to be more tailored to individual circumstances and aspirations.

Whereas operational advice was often identified by interviewees as primarily a challenge when starting out in self-employment, entrepreneurial advice was seen as particularly important for those beyond the initial phase. A ‘flatliner’ who had been in a low income household for a number of years and was trying to expand her business explained that she had changed her mind regarding when advice was most valuable. Previously, she had believed that advice was most valuable when starting out, but in light of the challenges she was encountering in expanding she now thought it was more important at a later stage of self-employment. We also found that a number of interviewees who identified entrepreneurial advice as a challenge argued that existing provision is too focused on those entering self-employment rather than those who are more established.

## Standing alone?

*I think it's when you're more established really. I think there's already provision when you start out, but until you fall a few times you don't know what you need.*

'Flatliner', single, aged 50+, South East

## Provision of entrepreneurial advice

Whereas operational advice can be largely codified in a single place for different people to access, entrepreneurial advice needs to be sensitive to individual circumstances and aspirations.

There are a number of possible sources of entrepreneurial advice, including friends and family. Mentoring was raised by a number of interviewees as something which could be valuable, but there was also a wariness of this being supplied by large organisations such as banks or bigger businesses. One reason for this was uncertainty regarding the motives of such organisations. A second reason was that larger organisations may not appreciate the difficulties facing self-employed individuals.

*You're offered mentoring by big organisations but it's basically someone trying to make money off you. It's not inspiring people who can help you get to the next stage. It's not helpful, it does more damage. Banks for example, they have business advisers but I know more about business than they do. They've never been there.*

'Flatliner', single, aged 50+, South East

The government provides a number of services and models of support aimed at boosting the entrepreneurial advice available to the self-employed. The £30 million Growth Vouchers scheme made cash available to small businesses to seek external advice on how to expand their business, for example, in areas such as marketing and recruitment. However, take-up of the scheme was low.<sup>83</sup> The government's 'Business is Great' website is designed to offer support and advice on growing a business. Under the Coalition Government, face-to-face business advice run by

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83. Phillip Inman, "Government growth voucher scheme branded a failure", *The Guardian*, 16 August, 2015.

Business Link was ended. In its stead, an online mentor-matching scheme, Mentorsme, was created which can be used by self-employed people to search for business mentoring organisations in their locality.

## Training

Advice can go a long way, but boosting business activity for self-employed individuals in low income households also depends upon the acquisition of skills through accessing formal training. The ability to up-skill and re-skill later on in life is crucial and there is considerable evidence that accessing training is associated with higher rates of productivity across different sectors.<sup>84</sup>

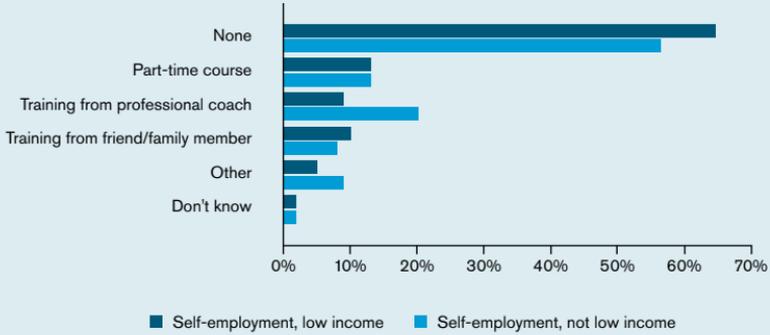
The Royal Society of Arts has found self-employed people to be almost half as likely as employees to have had access to training in the past 12 months.<sup>85</sup> Our polling found that self-employed individuals in low income households are less likely than those in higher income households to have accessed training. Sixty four percent of self-employed individuals in low income households have not accessed training in the past 12 months, compared to 56% of self-employed individuals in higher income households. This difference is primarily due to the different proportions accessing professional training from a coach – 20% of self-employed individuals in higher income households have accessed this in the past 12 months compared to only 9% of those in low income households. This is shown in Chart 6.2 (respondents were able to select multiple types of training).

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84. Penny Tamkin, "Measuring the contribution of skills to business performance", <http://www.cipd.co.uk/nr/rdonlyres/045262bd-5812-4221-a392-214d7ec52b6e/0/mesdconsklbpsum.pdf> (2005).

85. Benedict Dellot and Howard Reed, "Boosting the living standards of the self-employed" (2015).

**Chart 6.2. Forms of training accessed in the past 12 months, according to self-employed individuals, by household income**



Source: ComRes

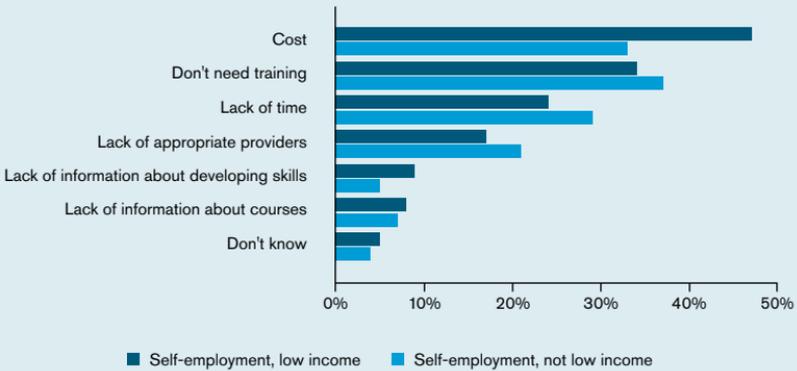
Base: 1,034 self-employed individuals

This difficulty with accessing training is distinct from the more general question of levels of educational attainment. As outlined in Chapter Three, in terms of highest qualifications attained, the spread of qualifications among self-employed individuals is similar to that among employees. The challenge for the self-employed is therefore specifically around training and upskilling once in the workforce.

### Causes of lack of training

As part of our polling, we asked self-employed individuals what they considered the greatest barriers to accessing training. ‘Cost’ was the most important factor for self-employed individuals in low income households, cited by 47%. It was significant also for those not in low income households, but markedly less so, cited by 33%. The results are shown in Chart 6.3 below.

**Chart 6.3. Greatest barrier to accessing training, according to self-employed individuals, by household income**



Source: ComRes

Base: 1,034 self-employed individuals

The cost of training is a significant barrier for self-employed people, but particularly those in low income households. As one of our interviewees put it:

*When you're self-employed, you can't invest in personal development. It's you versus the world.*

'Flatliner', single, aged 30-49, rural

The tax regime exacerbates this problem. As the think tank Demos has highlighted, while businesses are able to offset the costs of training for employees against their tax bill, the self-employed are only able to do so when it improves their existing skill set.<sup>86</sup> Training aimed at developing new skills is not tax-deductible. This weakens the attraction of undertaking training of this type amongst the self-employed.

Compared to employees, self-employed people face greater barriers to accessing training. Unlike many employees, self-

86. Duncan O'Leary, "Going it alone" (2014), 40-41.

employed individuals cannot draw on training from human resource departments. Surveys have suggested that nearly half of employers (44%) have organised training for employees in either numeracy, literacy or IT competence, while two thirds of employers fund or arrange training for staff.<sup>87</sup> By contrast, self-employed people must identify their own training needs and then find ways to meet them, whether this be transferrable skills such as numeracy, IT or client management or skills specific to a sector.

There is also evidence that training can be neglected by self-employed people. In our polling, just over a third declared that they do not have need of training at the current time. This relative neglect of training by self-employed individuals is supported by existing evidence. A Department for Business, Innovation and Skills survey found that only 17% of no-employee business owners cited lack of skills as an obstacle to business success.<sup>88</sup>

In our depth interviews, whereas advice and guidance were widely raised, wanting training was seldom mentioned. The one area of training which was highlighted related to marketing and advertising. Some interviewees felt that they would benefit, or would have benefitted at an earlier stage, from marketing training or a course in this area.

The lack of emphasis which self-employed individuals place upon accessing training should be interpreted carefully. First, even if it is often not explicitly recognised as a challenge, accessing training is still important for business growth and development. Second, accessing training in many cases may be dependent upon overcoming other challenges. For example, where limited finances block training, accessing training depends upon an improved financial state.

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87. CBI, "Gateway to growth", <http://www.cbi.org.uk/media/2807987/gateway-to-growth.pdf> (2014).

88. Department for Business, Innovation and Skills, "Small business survey 2012: businesses with no employees", [https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/193548/bis-13-p180-small-business-survey-2012-businesses-with-no-employees.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/193548/bis-13-p180-small-business-survey-2012-businesses-with-no-employees.pdf) (2012), 35.

In conclusion, it is important that self-employed individuals in low income households access advice and training, but they often struggle to do so. There are two main types of advice, operational and entrepreneurial, and a number of different sources. There is low take-up of training amongst self-employed individuals in low income households, with cost a particularly important barrier. In Chapter Seven we make policy recommendations aimed in part at addressing these challenges.

## Chapter 7: Policies to support the self-employed on low income

In the previous chapters, we outlined central challenges faced by self-employed individuals in low income households. In this chapter we make a number of policy recommendations to address some of these challenges and to support this group more effectively. We begin by outlining the key considerations guiding our policy formulation. We then outline each policy recommendation in turn.

### Our policy focus

This report has identified key challenges facing self-employed individuals in low income households. These emerged from our depth interviews with self-employed individuals and were quantified for their commonality through our polling, illustrated earlier in Chart 4.7. The two main categories of challenges that emerged from our evidence are: financial resilience and accessing advice and training. That is why we focus our policy recommendations in this chapter on addressing these types of challenges.

Nonetheless, there are two additional reasons for focusing on policies which address these specific challenges. First, we felt that these challenges particularly had public rather than just private implications. Ensuring that individuals have the financial resilience to cope with changes in circumstances is vital for household security and protecting the state against additional costs in the long run. Furthermore, accessing advice and training is important if the significant proportion of the workforce that is now self-employed is going to contribute to enhancing Britain's low levels of productivity.<sup>89</sup>

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89. BBC, "UK productivity lags behind the rest of the G7", BBC, 18 September, 2015.

Second, some of these challenges particularly affect those self-employed individuals who are in low income households. Challenges relating to financial resilience can be particularly problematic for this group as they have fewer resources to cope with income shocks or fluctuations. For instance, 36% of self-employed individuals in low income households say that saving for a ‘rainy day’ is one of their main challenges compared to only 22% of those in higher income households, as shown previously in Chart 4.7.

The policies we propose stem from three fundamental principles. First, recognising fiscal reality: considering ongoing fiscal constraints, proposed policies should not be too costly for government. Second, ensuring progressive impact: policies involving government expenditure on the self-employed should benefit those on low household incomes the most. Third, having a sound empirical basis: policies should stem from the attitudes and priorities of self-employed people in low income households.

### **Recommendation one: Compulsory Contributory Top-up Accounts for the self-employed**

We propose that all people whose main form of employment is self-employment be required to pay a new class of National Insurance into a Contributory Top-up Account. Each self-employed taxpayer would be assigned an individual account, with the balance accruing through payments. Funds could be drawn down when the individual is in need, thereby boosting their financial resilience. These accounts were proposed in Bright Blue’s paper, *Give and take*.<sup>90</sup> But what we are proposing here which is original is that they should be compulsory for those who are self-employed, and still be voluntary for employees.

Self-employed individuals would be required to pay a certain proportion of their annual earnings above a certain income threshold into their Contributory Top-up Account through a new class of National Insurance. The proportion of earnings and income threshold should be determined by government after consultation.

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90. Ryan Shorthouse and David Kirkby, “Give and take: how conservatives think about welfare”, <http://www.brightblue.org.uk/images/Giveandtake.pdf> (2014).

## Standing alone?

Beyond this compulsory rate, further voluntary contributions should be possible. These contributions would go into a high interest savings account. Drawing down from the account would be tax-free.

For those in low income households, voluntary contributions should be encouraged through some match funding from the state. This would ensure that those in low income households benefit more. As a point of comparison, as part of the Help-to-Buy ISA scheme, the government contributes an additional 25% to savings, subject to a monthly threshold cap and a lifetime threshold cap.<sup>91</sup>

Funding could be drawn down from a Contributory Top-up Account in five scenarios:

- Unemployment
- Illness
- Low income
- Paid parental leave
- Retirement

First, self-employed individuals could draw down from their Contributory Top-up Account if they become unemployed. Second, they could draw down when ill, for example when claiming Employment and Support Allowance. In the case of unemployment or illness then, being able to draw from their Contributory Top-up Account would serve to supplement their income and any state benefits they receive when out of work. The amount that could be withdrawn would be capped and time-limited.

Third, self-employed individuals could draw down during periods of low income. Tax credit claimants could draw down for a time-limited period within a given number of years. This time-limited period should be determined by government after consultation, but should reflect the importance of restricting access for individuals who may be on tax credits for long periods of time.

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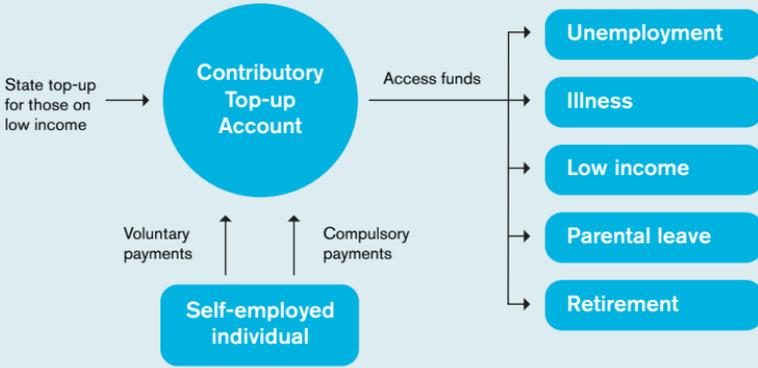
91. HM Treasury, "Help to buy: ISA", [https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/413899/Help\\_to\\_Buy\\_ISA\\_Guidance.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/413899/Help_to_Buy_ISA_Guidance.pdf) (2015).

Claimants of Universal Credit could draw down for a time-limited period within a given number of years, as available to tax credit claimants, or when their income falls below their Minimum Income Floor (MIF). As Chapter Five explained, MIF caps the amount of Universal Credit a self-employed claimant can receive, with no further payments made when their income falls below this threshold. This means that variation and fluctuations in income – a huge challenge for self-employed individuals in low income households, as demonstrated by Chart 4.7, are not compensated through additional Universal Credit when income falls below MIF. Allowing individuals to draw down from their Contributory Top-up Accounts when their income falls below their MIF would help to support them in periods of low income. This would be achieved without undermining the logic of the MIF – that the state should not subsidise self-employment which is not financially viable.

Fourth, an individual could draw down from their Contributory Top-up Account if they or their partner are on paid parental leave. As self-employed individuals are eligible only for Statutory Maternity Allowance – less generous than Statutory Maternity Pay – this income would serve to supplement the limited state benefits they receive during paid parental leave. The amount that could be drawn down during paid parental leave would be capped.

Finally, if a person has a surplus in their Contributory Top-up Account at the end of their working life, the money could be released for them to choose how they spend it. For example, it could be used to fund their retirement or transferred to the Contributory Top-up Accounts of their children.

Figure 7.1. Contributory Top-up Accounts for the self-employed



Savings built-up in Contributory Top-up Accounts would be disregarded for the purposes of benefit eligibility. Unlike ISAs therefore, savings held in these accounts would not diminish the state benefits individuals could receive. Similarly, income drawn from a Contributory Top-up Account would be disregarded from assessment of earnings for mean-tested benefits, including Universal Credit.

For the self-employed, a number of factors warrant making these accounts compulsory. As discussed in Chapter Five, self-employed individuals, and particularly those in low income households, are more exposed to income fluctuations and have lower levels of financial resilience through reduced state welfare and lower household savings. Given ongoing fiscal constraints, government spending alone is not a viable means of addressing this challenge. Instead, supporting self-employed individuals to build up their own financial resilience through Contributory Top-up Accounts is a better approach, and one which fits with the goal of developing a welfare settlement which places a greater emphasis upon personal responsibility.

Furthermore, existing tax rates for the self-employed justify a new compulsory contribution for Contributory Top-up Accounts. Currently, self-employed individuals pay Class 2 and Class 4

National Insurance rather than the Class 1 applicable to employees. The values of various National Insurance classes are outlined in Box 7.1.

### Box 7.1. Rates of National Insurance

#### Employees

Class 1: 12% of earnings between £155 and £815 per week  
2% of gross earnings over £815 per week

#### Employers

Class 1: 13.8% of employee earnings over £156 per week

#### Self-employed

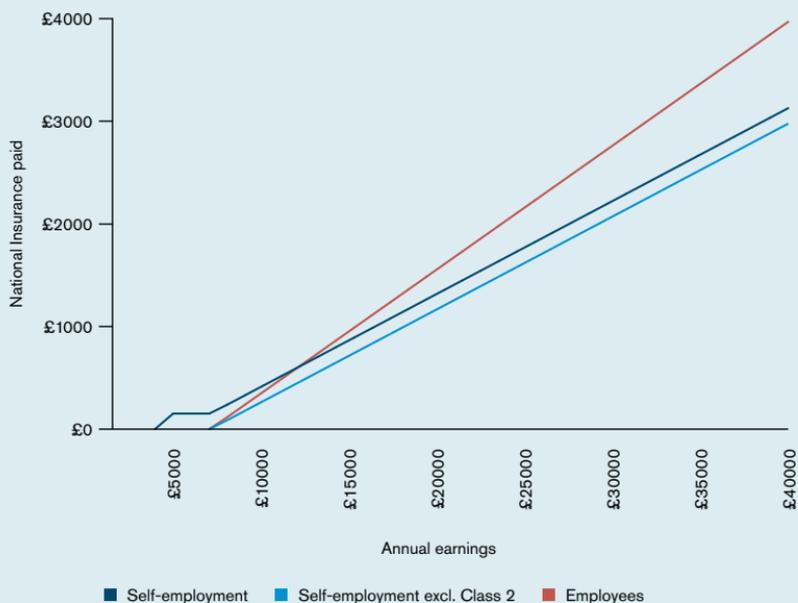
Class 2: £2.80 per week if profits exceed £5,964

Class 4: 9% on profits between £8,060 and £42,385  
2% on profits over £42,385

In the 2015 Summer Budget, the Chancellor announced that Class 2 National Insurance Contributions are to be abolished, by April 2017 at the earliest.<sup>92</sup> In the absence of other changes, this will open up a significant disparity between the contribution rates of self-employed individuals and employees. These disparities in National Insurance Contributions are illustrated in Chart 7.1. While the self-employed currently pay marginally more National Insurance than employees on incomes between £6,000 and £13,000 due to Class 2 contributions, and employees pay more further up the income scale, when Class 2 National Insurance is abolished employees will pay more National Insurance than the self-employed at every point on the income scale where any contributions are made at all. Moreover, this is before taking account of the additional National Insurance Contributions which employers make for employees, and which have no correlate in the case of the self-employed.

92. HM Treasury, "Budget 2015", <https://www.gov.uk/government/publications/summer-budget-2015/summer-budget-2015> (2015).

**Chart 7.1. National insurance contributions for the self-employed and for employees**



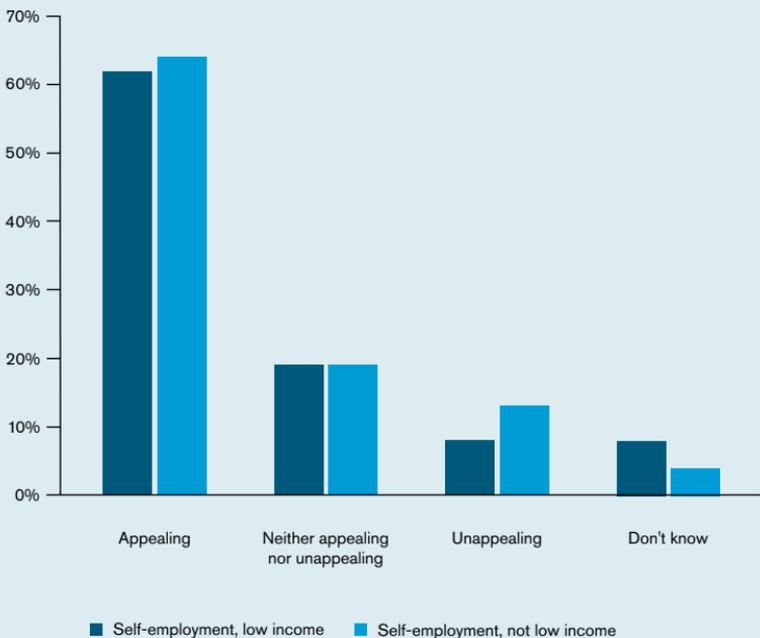
On balance, while the self-employed are a ‘special case’ with regard to lower benefit eligibility – as discussed in Chapter Five – they are also a special case with regard to their lower National Insurance Contributions compared to employees. Indeed, previous studies have concluded that self-employed people gain more from the welfare state than their existing National Insurance Contributions warrant.<sup>93</sup> As such, the recommendation that self-employed individuals be required to make compulsory contributions to Contributory Top-up Accounts may help to bring their National Insurance rates into line with those for employees. Furthermore, though the self-employed will be required to pay more than is currently the case, these Contributory Top Up Accounts mean they may receive more financial support than employees during periods

93. Adam Corlett, “Ending the self-employed tax break”, <http://centreforum.org/publications/ending-the-self-employment-tax-break/> (2013); Martin Taylor, “The modernisation of Britain’s tax and benefit system”, <http://webarchive.nationalarchives.gov.uk/20100407010852/http://www.hm-treasury.gov.uk/d/taylor05.pdf> (1998).

of unemployment, low income or parental leave.

As part of our polling we asked respondents whether enabling all self-employed individuals to save a small proportion of their earnings in a personal welfare account would appeal to them. It is important to note that we did not stipulate that payments into this account would be compulsory for self-employed people, as we recommend. Nonetheless, there is clear support for the basic policy model: 64% of self-employed respondents, and 65% of those in low income households, said that this was either very appealing or fairly appealing (reported as net appeal). This is illustrated in Chart 7.2.

**Chart 7.2. Appeal of enabling individuals to save a proportion of earnings in a personal welfare account, according to self-employed individuals, by household income**



Source: ComRes

Base: 1,034 self-employed individuals

## **Recommendation two: Financial incentives for Local Enterprise Partnerships (LEPs) to provide effective local advice networks for the self-employed**

We propose that Local Enterprise Partnerships (LEPs) should be incentivised to develop advice networks for self-employed individuals and business owners within a given locality. Funding for LEPs should be, in part, dependent upon them demonstrating that they will establish effective local networks for the self-employed, and in particular, dependent upon them demonstrating that these networks will help those on low income. This will help to boost the ‘operational’ and ‘entrepreneurial’ advice available to self-employed individuals.

### **Box 7.2. What are LEPs?**

LEPs were established in 2010 under the Coalition Government’s Local Growth Bill to “provide the clear vision and strategic leadership to drive sustainable private sector-led growth and job creation in their area”.<sup>94</sup> Comprised of both business and civic leaders, LEPs link local authorities and local businesses, encouraging private-sector engagement with economic objectives.

There are now 39 LEPs, each aligned with a local authority. As non-statutory, locally driven bodies, LEPs are granted considerable autonomy, though they must be chaired by a business person and at least half their board members must be from the private sector. LEPs vary in size, internal infrastructure, outlook and priorities. They are involved in a range of agendas, from housing and transport through to skills.

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94. Department for Business, Innovation and Skills, “Local growth: realising every place’s potential”, <https://www.gov.uk/government/publications/local-growth-realising-every-places-potential-hc-7961> (2010).

LEPs receive core funding from central government, up to £500,000 per LEP per year.<sup>95</sup> They bid for additional funds through, for example, the Single Local Growth Fund, announced in 2013 as a single funding pot drawn from existing skills, housing and transport budgets.<sup>96</sup> In March 2014, all LEPs submitted Strategic Economic Plans to central government, identifying how they would boost growth over a sustained period.

Many LEPs are already engaged in business support which can benefit self-employed people. The York, North Yorkshire & East Riding LEP has pioneered pop-up business cafes at which individuals volunteer to provide free advice for small local businesses.<sup>97</sup> These cafes are designed to reach out to people who might not otherwise be able to access the support they need.

As locally driven bodies, with private sector representation, LEPs are well placed to deliver advice networks, and play a greater role in supporting self-employed people in a given locality more generally. Lord Heseltine's report, *No stone unturned*, argued that a significant part of the business support budgets held by central government departments should be allocated to local leaders to spend in accordance with local conditions.<sup>98</sup>

Establishing local advice networks for the self-employed and local business owners is likely to boost their social networks. While established companies can often rely upon their brand and reputation, building up a client base and a reputation for self-employed people can depend upon the strength of their social connections. There is considerable academic research demonstrating that richer social networks boost the chances of

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95. Federation of Small Businesses, "The future of Local Enterprise Partnerships: a small business perspective", <http://www.fsb.org.uk/docs/default-source/fsb-org-uk/policy/assets/fsb-making-leps-support-small-business-better.pdf> (2014), 22.

96. House of Commons Library, "Local Growth Deals", <http://researchbriefings.parliament.uk/ResearchBriefing/Summary/SN07120#fullreport> (2015).

97. York, North Yorkshire & East Riding LEP "Business support", <http://www.businessinspiredgrowth.com/project/business-support>.

98. Lord Heseltine, "No stone unturned", [https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/34648/12-1213-no-stone-untuned-in-pursuit-of-growth.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/34648/12-1213-no-stone-untuned-in-pursuit-of-growth.pdf) (2012).

new business ventures succeeding.<sup>99</sup> Moreover, there is reason to believe that this may be particularly important for self-employed individuals in low income households. There is evidence that self-employed people from higher socio-economic classes tend to have richer social networks than those from lower socio-economic classes.<sup>100</sup>

In fact, we recommend that a certain proportion of funding for LEPs in future rounds of Growth Deals should be dependent upon them demonstrating they will establish effective local advice networks for the self-employed in their area and, in particular, dependent upon them demonstrating that these advice networks will benefit those on low income. In their proposals for funding, LEPs will need to identify how existing local networks, local training providers, businesses and organisations such as the Federation of Small Businesses and Chambers of Commerce can be involved. LEPs should have flexibility and autonomy over how these local advice networks are delivered – thereby allowing best practice to emerge.

In our polling of self-employed individuals in low income households, we found that other self-employed individuals and local business owners were regarded as the most effective source of advice by respondents (see Chart 6.1). That self-employed people may value entrepreneurial guidance from other self-employed people and business owners in their locality makes sense as such people have a wealth of experience to offer. For all the government and centrally driven initiatives, the opportunities for self-employed people connecting locally are currently more limited.

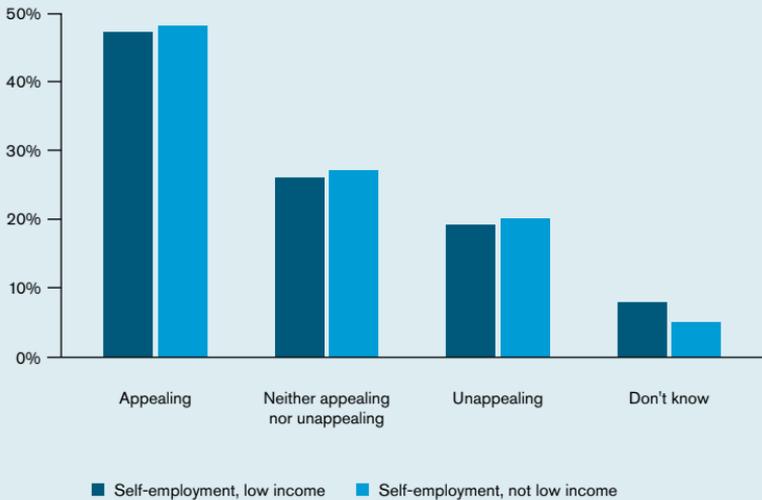
In our polling we also asked about this specific proposal. We found that developing local advice networks for self-employed individuals within an area to meet and offer each other support on enterprise and business challenges appealed to 47% of self-employed individuals in low income households. Nineteen percent said that it would not appeal, as illustrated in Chart 7.3.

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99. Delmonize Smith and Franz Lohrke, "Entrepreneurial network development: trusting in the process", <http://scholarworks.rit.edu/cgi/viewcontent.cgi?article=1601&context=article> (2008).

100. Benedict Dellot and Howard Reed, "Boosting the living standards of the self-employed" (2015), 63.

**Chart 7.3. Appeal of local advice networks, according to self-employed individuals, by household income**



Source: ComRes

Base: 1,034 self-employed individuals

### Recommendation three: Guaranteeing self-employed representation on Local Enterprise Partnership boards

We propose that there should be a requirement for a certain proportion of LEP board members to be self-employed. This would help LEPs focus on providing advice and guidance for self-employed individuals, including the establishment of effective local advice networks.

There is evidence suggesting that currently large businesses exert greater influence in LEPs than small businesses and that there is insufficient engagement with small businesses.<sup>101</sup> Ensuring that self-employed individuals are represented on LEP boards is important for LEPs developing local advice networks for the self-employed. Furthermore, this representation should help LEPs more generally with reaching out to and engaging with self-

101. Federation of Small Businesses, "The future of Local Enterprise Partnerships: A small business perspective" (2014).

employed individuals in their locality.

This requirement of self-employed representation would be in addition to the current requirement for at least 50% of board members to be from the private sector. The exact proportion required should be determined following consultation, but should be broadly reflective of self-employment rates in the wider economy.

#### **Recommendation four: Universal Credit advice portal**

We propose that Universal Credit operate as a portal for self-employed claimants to access government advice and information about self-employment and also regarding their local LEP and local advice networks. This will further help to boost their ability to access advice.

Currently, the government provides extensive online resources on becoming self-employed and starting out in self-employment, including dealing with tax returns, expenses and legal business structures. Despite this, as we discuss in Chapter Six, self-employed individuals report difficulties in accessing advice and information. This suggests that the problem is, in part, one of promoting existing resources more effectively.

Self-employed Universal Credit claimants should be directed to government information and advice regarding self-employment directly as part of their monthly self-reporting of earnings. Furthermore, they should also be directed to the online resources for their local LEP, to ensure they are aware of their LEP and any local advice networks.

#### **Recommendation five: Universal Credit earnings reporting transferrable for Council Tax Support**

As well as helping to boost access to advice amongst the self-employed, Universal Credit could also help to reduce red tape. In particular, self-employed claimants of Universal Credit should be able to register their reported monthly earnings for Universal Credit directly with their council for Council Tax Support.

Council Tax Support is administered locally and lies

outside of Universal Credit. As well as having to report earnings monthly to the Department for Work and Pensions in order to claim Universal Credit, self-employed claimants must also report their earnings separately to their council in order to claim Council Tax Support. In addition, those who have been trading for over 12 months are normally required to also provide full trading figures. While some local authorities issue transparent guidelines on reporting earnings from self-employment, others do not. This state of affairs places an unnecessary additional burden on self-employed individuals already reporting their earnings for Universal Credit. It may also restrict take-up rates of Council Tax Support amongst the self-employed.

Earnings submitted for Universal Credit by claimants should be used by councils for assessing Council Tax Support. One option would be to allow claimants to submit their earnings directly to their council electronically as part of the Universal Credit reporting process. This would simplify and reduce the burden on self-employed individuals claiming both Universal Credit and Council Tax Support, and also potentially boost take-up rates of Council Tax Support for self-employed people.

## Conclusion

In this chapter we have proposed five policy ideas, aimed at addressing either financial resilience or the accessibility of advice for self-employed individuals in low income households. The policies are underpinned by three guiding principles: recognising fiscal reality, ensuring progressive impact and having a sound empirical basis.

The number and proportion of self-employed people in the UK economy continues to rise. This report has illustrated that the self-employed are more likely to be living in low income households compared to employees. Policymakers need to understand in detail the unique circumstances, experiences and challenges faced by those who are in low income households. We have provided a detailed snapshot of life on self-employment for these individuals. Ensuring that these people flourish is crucial for both individual and national prosperity. Our innovative proposals are each a step

Standing alone?

towards achieving this.

## Annex: Polling questions

**Q1. Which of the following would you say are the main reasons why you entered self-employment? Please rank your top three reasons, where 1 is the most important**

1. The organisation I work for or wanted to work for required it / would not take me on as an employee
2. To spend more time with family
3. Allowed me to look after children / relatives
4. Wanted to run my own business
5. Spotted gap in the market
6. Didn't like working for other people
7. Was the standard for industry I wanted to work in or job I wanted to do
8. Wanted the flexibility around what hours I worked
9. Couldn't find any other work
10. The possibility of getting rich
11. Wanted to gain experience in a particular sector
12. Best way to escape unemployment
13. More attractive tax arrangements than working for someone else
14. More fulfilling than being an employee
15. Other (please specify)
16. Don't know

**Q2. Which of the following fits closest to your current situation?**

1. I have so much work on at the moment it is difficult to manage
2. I am happy with the amount of work I have at the moment
3. I would like to take on more work at the current time
4. I am currently looking for another job working for some else
5. Don't know

**Q3. When you first started your current self-employed job, which of the following forms of non-financial support did you have, if any? (Select all which apply)**

1. An existing client/customer/organisation willing to give me work or pay me
2. Living rent/mortgage-free / at reduced cost (e.g. with family / friends)
3. Access to premises / somewhere to work out of at a reduced cost or for free
4. Use of someone else's equipment
5. Business advice and support
6. Mentoring from someone with experience of self-employment
7. None of these
8. Don't know

**Q4. When you first started your current self-employed job, which of the following types of financial support did you have, if any? (Select all which apply)**

1. Loan from the bank
2. One-off windfall (e.g. redundancy pay-out, inheritance etc)
3. Financial help from parents or family members
4. Working another job while starting out
5. The income of my spouse/partner who was in work
6. Welfare payments
7. Savings

8. None of these
9. Don't know

**Q5. What would you say are your ambitions for self-employment?**

1. Grow a business to be as large as possible
2. Be able to sustain a good standard of living for myself and my family
3. Gain experience in order to secure a job with a company
4. Not sure

**Q6. Which of following would you say are the biggest challenges facing you in your job at the current time? Please rank your top three where 1 is the biggest challenge.**

1. Late payment from clients
2. Building a customer base and professional network
3. Lack of basic guidance and information
4. Business and enterprise advice
5. Needing to improve on the skills I use for my job
6. Lack of holiday pay
7. Lack of sick pay
8. Lack of maternity or paternity pay
9. Saving for a rainy day
10. No pension
11. Accessing a mortgage
12. Variation in income from month-to-month
13. Laws and regulations ("Red tape")
14. Other (please specify)
15. Don't know

Standing alone?

**Q7. Do you get paid by customers by sending them invoices through the post/by email?**

1. Yes, I send invoices
2. No, I operate a different payment system (e.g. getting paid immediately, through standing order)

**Q8. On average, roughly how much time per week do you spend chasing payments due from customers?**

hours

**Q9. What training to develop skills related to your work have you done in the past 12 months, if any? (Select all which apply)**

1. None
2. Part-time course
3. Formal training by a professional coach/expert
4. Training from a friend/colleague/family member
5. Other [please specify]
6. Don't know

**Q10. What would you say are the greatest barriers to you accessing more training to develop your skills?**

1. The cost
2. Lack of time
3. Lack of quality training available in my area
4. Lack of appropriate training at the right level
5. Lack of information about local courses
6. Lack of information about what skills I should develop
7. Don't need any further training at the current time
8. Don't know

**Q11. Which of the following sources of business advice and information are personally...**

*Most important to you? / Most effective? / Would you like more support from?*

1. Banks
2. Friends and family
3. HMRC and other government bodies
4. Former colleagues
5. Other self-employed people and local business owners
6. Citizen's Advice centres (formerly Citizen's Advice Bureau)
7. None of these
8. Don't know

**Q12. If you could choose, would you rather...**

1. Pay more tax and receive the same access to welfare from the government as employees do (such as sick pay, maternity pay etc.)
2. Pay the same amount of tax you pay now and have access to the same welfare from the government that you currently do
3. Don't know

**Q13. How appealing or unappealing would you personally find each of the following?**

*Very appealing / Fairly appealing / Neither appealing nor unappealing / Fairly unappealing / Very Unappealing / Don't know*

1. Enabling all self-employed individuals to save a small proportion of their earnings in a personal welfare account that attracts interest. Savings built up in these accounts would be topped up by government for those on low incomes. The savings could be accessed in times of need, for example, when an individual is eligible for Parental Leave, is ill, or becomes unemployed.

## Standing alone?

2. Developing local networks for self-employed individuals within an area to meet and offer each other support on enterprise and business challenges.
3. Giving people a fixed lifetime loan allowance of a large amount of money from the government to pay for higher education courses. They could divide it between as many courses as they wanted over the duration of their lifetime and would be asked to repay this money when earning more than a reasonably high salary.

Rises in the number of individuals self-employed since 2008 have been accompanied by sharp falls in earnings. With average earnings from self-employment now well below average earnings for employees, understanding the experiences and challenges facing self-employed individuals on low income is vital. This report offers new evidence on these experiences and challenges and makes a number of policy recommendations to support this group more effectively.



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