

Tough gig

Low paid self-employment in London and the UK

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Trust for London

Tackling poverty and inequality



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EXECUTIVE SUMMARY

Self-employment is on the rise, now accounting for more than 1 in 7 workers in the UK. Technological and regulatory changes have reduced the cost and increased the ease of becoming self-employed. In many ways, this is a positive story of increased flexibility and greater economic dynamism.

But there are also reasons to worry. Our research finds that low-paid self-employment is rising. **Around half (49%) of the UK's self-employed are in low pay, measured on an hourly basis, compared with around a fifth of employees (22%).** Whilst the proportion of self-employed workers in low pay has been growing, in comparison, the proportion of employees in low pay has remained relatively stable.

There is an increasingly sharp divide between low paid workers who are employees and low-paid workers who are self-employed. The National Living Wage (NLW) is being brought in to boost the pay of low-paid workers. But according to our estimates, **1.73 million workers will continue to be paid below the NLW when it comes into force in April 2016 because it does not cover the self-employed.** These 1.73 million workers are missing from the Government's strategy to move from "a low wage, high tax, high welfare economy" to a "higher wage, lower tax, lower welfare economy".

Effectively, with the National Living Wage acting as a floor for employees, there is a risk that low pay continues to exist, but largely invisible, through self-employment. Further, the self-employed are not entitled to same rights as employees, such as holiday and sick pay. There are different tax implications: elements of National Insurance do not apply to the self-employed. This means that this is not simply an issue of an excluded group living in greater relative poverty. The divide in the way in which Government treats employees and the self-employed is making it artificially cheaper for firms to

move to a model of firm-contractor, and away from the employer-employee model of working. This accelerates changes that are already underway due to technological advances. Over time, policy designed for a world of employee-employer relationships is likely to become less and less effective.

The low-paid self-employed have few other sources of income to rely on aside from their earnings. We looked at both personal income, and wider household income of low-paid workers. We find that across the UK, 64% of low-paid self-employed have no other sources of personal income aside from their employment earnings, compared to 36% of low-paid employees. **Employees are much more likely to have at least some sources of non-employment income to supplement their employment earnings.**

Further, **the low-paid self-employed are more likely to live in low income households than their employee counterparts.** Around 28% of the low-paid self-employed are also in low income households – or around 600,000 people across the UK. By comparison, 19% of low-paid employees are in low income households.

Nowhere is the prominence of self-employment greater than in London, where 18% of those in work are self-employed. Our figures for London only go as far as 2010-11, due to relatively long lags in the release of official data. **We estimate that in 2010-11, 319,000 self-employed Londoners were in low monthly pay. This is equivalent to 52% of London's self-employed.** If London has followed the UK-wide trend over the past few years, it is likely that this figure will have since risen, to around 55%.

London's self-employed are likely to face particular challenges, due to London's relatively high cost of living. Volatility in self-employment earnings are likely make these high costs especially difficult to deal with. The Living Wage Foundation publishes a basic hourly rate

intended to reflect the cost of living in UK and London specifically, based on calculations by the Centre for Research in Social Policy at Loughborough University and the Greater London Authority. According to our estimates, **in 2010-11, around 67% of self-employed Londoners earned less than the equivalent of a full-time employee on the London Living Wage, at the time £15,100 a year.**

We also find that **London's low-paid self-employed are less likely to have other sources of personal income aside from their employment earnings, compared to their UK-wide counterparts.** 77% of London's low-paid self-employed have no other sources of personal income aside from their employment earnings, compared to 64% UK-wide. This appears to be at least partly because the low-paid self-employed in London are younger and less likely to receive investment dividends and pension income.

Five sectors account for 73% of London's low paid self-employed, and 64% of the UK's self-employed. They are:

1. **Construction**, which includes building site work, electricals and plumbing, decoration and roofing.
2. **Administrative and support activities**, which includes a range of different types of activities, but our analysis shows that that the most common sub-component for the low-paid self-employed is services to buildings & landscape activities, such as cleaning and gardening.
3. **Transport & storage**, of which the most important for the low-paid self-employed are "land transport", most likely taxi, lorry or coach drivers.
4. **Professional, scientific and technical**, where much of the low-paid self-employed are concentrated in design, photography and translation services.
5. **Wholesale and retail trade**, with the majority of low-paid self-employed in retail trade.

In this paper, we set out our key findings from quantitative analysis of low paid self-employment across the UK and London in particular. This is the first stage of a wider project examining what should be done to support the low-paid self-employed. We pay particular attention to London, because of the specific challenges it faces: high costs of living and higher growth in self-employment than other regions of the UK.

The research so far raises a number of questions to explore, including:

- why the low-paid self-employed are highly concentrated within some sectors, and whether firms contracting with the self-employed should be doing more;
- the role of training and support to move into higher paid work. Much support for the self-employed often focuses on business growth, but most of the low-paid are in highly competitive areas of work, where growth prospects are likely to be limited;
- how the welfare system supports those in low-paid self-employment, particularly those who are there for long periods of time;
- the role of campaigns and information, such as the achievements that the Living Wage Foundation has brought about for employees;
- how Government will need to change its approach to tackling low pay, as policies built on the traditional idea of employer-employee relationships become less effective in reaching low paid workers over time.

In our follow up work, we plan to examine these questions in greater detail, looking at the likelihood of escaping from low paid self-employment and who manages to escape. We will use insights from interviews with the low-paid self-employed and existing models of

support to explore how the low-paid self-employed can be helped into higher pay, and what the respective roles are for national Government, local government, LEAs, charities and businesses.

1. SELF-EMPLOYMENT AND LOW PAY

The rise of self-employment

Self-employment is a growing part of the employment landscape. It now accounts for over 1 in 7 of workers in the UK, a proportion that has grown by a quarter since the turn of the century.¹

Technological changes are likely to drive further increases in self-employment. Platforms such as Uber, Task Rabbit, Upwork and Handy allow the self-employed to directly find customers and allow customers to easily find goods and services that they want. Start-up costs are falling, driven partly by technology, and partly by regulatory change. Technology reduces the benefit that firms achieve from economies of scale, expanding markets and increasing the potential for competition and innovation. The UK now had the third lowest start-up costs in the world.² Self-employment can also allow greater flexibility, with benefits for workers and firms alike.

However, there are less positive reasons for the rise in self-employment. In some cases, self-employment can be a response to being locked out of the labour market, with evidence that this is particularly common among first generation migrants.³ The regulatory environment may also be pushing more people into self-employment, by making it artificially attractive for firms to engage contractors rather than take on employees. For example, the self-employed are not entitled to the same rights as employees, such as holiday or sick pay, potentially reducing the cost to firms of hiring them, compared to employees.⁴

In addition, there is a significant differential in tax paid through National Insurance across employees and their employers, and the self-employed. The Office for Tax Simplification has said that this

results in pressures on the employment status boundary from those who wish to gain an advantage, as it can make it cheaper to contract with a self-employed individual rather than hire an employee.⁵ Studies have shown substantial changes in the numbers of self-employed and employees following changes to the tax code favouring one side or the other.⁶ The differential in costs of contracting rather than hiring could be about to worsen. As the National Living Wage (NLW) comes in, contracting out services to self-employed individuals rather than employing workers may start to look like an increasing attractive proposition, as self-employed workers are not covered by the NLW.

Nowhere in the UK is the prominence of self-employment greater than in London, where 18% of those in work are self-employed. Among men, the rate is even higher, at over 22%.⁷ Growth in self-employment in London led the jobs recovery after the last recession: whilst it took until 2012 for employee jobs to recover to 2008 levels, self-employment continued to grow over the same period.⁸

The knowledge gap

Despite the continued rise of self-employment, we understand little about it, especially low-paid self-employment. We know that the self-employed are more likely to be in low pay than employees.⁹ But whereas there has been substantial research on, and Government policy targeted at, low-paid employees (NLW being a prime example), there has been little attention paid to the low-paid self-employed.

The SMF is conducting a project examining low-paid self-employment, with a focus on London, where self-employment is highest. London faces some specific challenges: individuals living in London are more likely to experience self-employment and rates of business births and deaths are higher than anywhere else in the country.¹⁰ At the same time, London's relatively high cost of living

means that the potential lack of stability in self-employment incomes is likely to be especially problematic.

Our aim is to develop evidence-based recommendations to help improve support for London's low paid self-employed, and help them progress onto higher pay. Our research is based on quantitative analysis of three large national datasets, interviews with the London's low-paid self-employed and analysis of existing models of support.

In this paper, we set out our initial findings on the scale of low-paid self-employment in London and the UK, and what London's low-paid self-employed look like. Our definitions of who is in self-employment is based on that used in official national datasets.

2. HOW MANY SELF-EMPLOYED PEOPLE ARE IN LOW PAY?

Measuring low pay

Traditionally, research has focussed on the proportion of *employees* in low pay, with little attention paid to the proportion of self-employed workers on low pay. The usual measure used is earning two-thirds of median hourly employee pay or below. Estimates of the proportion of employees in low pay are usually derived from the Annual Survey of Hours and Earnings (ASHE). However, this dataset contains no information on the self-employed, so for our purposes, we use data from the Family Resources Survey (FRS) for UK-wide figures and HMRC for London-specific figures.

In this section, we present our estimate of the proportion of self-employed individuals in low pay. We look at both hourly pay and monthly pay. Monthly pay can be seen as better reflecting the total earnings that individuals have to spend; however low monthly pay might also reflect a choice to, for example, sacrifice pay for fewer hours and more leisure time. We therefore also look at hourly pay, to better understand individuals' true earning power. Our threshold for low pay is two-thirds of median earnings of those whose main job is as an employee. This is similar to the threshold that is used across many studies to measure low pay for employees.

In 2013/14, the most recent year for which we have data, two-thirds of median annual gross employee pay in the UK was £13,349, and two-thirds of median hourly gross employee pay was £6.89.¹¹ For London, we do not have a good measure of numbers of hours worked, so we present estimates of low pay based on monthly pay only.

Box 1: Measuring low paid self-employment

Our national-level data is based on the Family Resources Survey (FRS), which is one of the few national-level surveys that asks respondents about income from self-employment. Most analysis of low pay looks at employees only, and therefore uses a threshold of two-thirds of median earnings among those who are employees. We also use this definition for our analysis. An alternative approach would be to use two-thirds of median earnings of all workers, however, using this measure would mean our results are less comparable to many previous studies on low pay. In practical terms, using this alternative approach makes little difference to the overall results and conclusions.

We compare our threshold against the total earnings of those whose main job is self-employment. This means that, among the self-employed, earnings can include additional income from work as an employee, and vice-versa. There are relatively few individuals who mix both types of earning, however, we examine this in more detail later in the chapter.

The FRS is also used by Government to produce official statistics on households below average income.[1] The FRS (2013/14) covers 35,134 individuals and 20,137 households. It is possible that respondents in the FRS may mis-report income, however, it is generally seen as the most reliable survey of income data in the UK.[2]

However, sample sizes in the FRS are too small to examine the extent of low-paid self-employment in London specifically. For these estimates, we use HMRC's Survey of Personal Incomes (SPI), which contains data on 677,442 individuals, of which 99,850 are in London (2010/11).[3] The SPI dataset does not contain information on what individuals perceive to be their main job, if they have more than one. We therefore assume that self-employment is an individual's main job if they complete a self-assessment and their earnings from self-employment exceed their earnings from any work they do as an employee.

The main drawbacks to using the SPI are that, firstly, because it is based on HMRC's administrative data, it may not be fully representative of those who have undeclared income:[4] and secondly, the data is published after a relatively long lag. For these reasons, we also analyse trends over time in self-employment and low-paid self-employment across the FRS and SPI. This allows us to adjust our SPI estimate of low-paid self-employment in London for potential under-reporting, and bring it in line with FRS measures.

[1] Department for Work and Pensions, Households below average income, 2015

[2] Department for Work and Pensions, Family Resources Survey, 2015

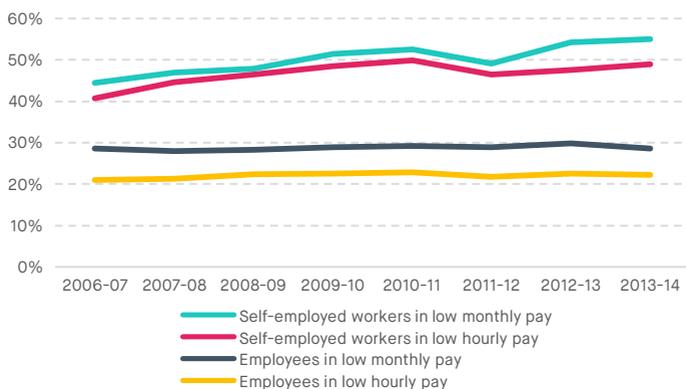
[3] 2010/11 is the latest year for which data is currently available.

[4] Those who are self-employed should all complete a self-assessment, whether or not they make a profit or loss. However, it is likely that some individuals may fail to complete one, or may under-report their income.

Around half of self-employed in low pay

We find that **49% of the UK’s self-employed are in low pay, measured on an hourly basis, compared with just 22% of employees.** On a monthly basis, we find that well over half (55%) of the UK’s self-employed are in low monthly pay, and this proportion has been growing over time. This compares to around 29% of employees. Whilst the proportion of self-employed workers in low pay has been growing, in comparison, the proportion of employees in low pay has remained relatively stable.¹²

Figure 1: Proportion of UK workers in low pay (2006/7-2013/14)



Source: Family Resources Survey (FRS), 2015. Low pay is calculated based on 2/3 median employee earnings from the FRS for the relevant year.

But whilst the advent of the National Living Wage is set to reduce the proportion of low-paid employees to its lowest level since 1985,¹³ the same is not true of the self-employed, who are not covered by the National Minimum Wage or the National Living Wage.

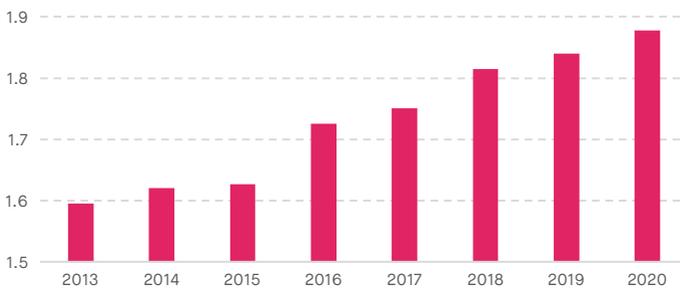
1.73 million workers will continue to be paid below the NLW when it comes into force in April 2016 because it does not cover the self-

employed. As the NLW rises over time, more and more self-employed individuals will be left behind as the gap between their wages and the wages of employees grows. By 2020, we estimate that 1.88 million self-employed workers will be paid below the living wage, falling further behind their employee counterparts.¹⁴

Figure 2a: Proportion of UK self-employed with hourly earnings below NMW/NLW (2013-2020)



Figure 2b: Number of UK self-employed with hourly earnings below NMW / NLW (£ millions, 2013-2020)



Source: SMF calculations based on FRS 2013/14 data. Earnings are assumed to grow in line with OBR estimates; includes those aged 25 and over only.

This is not simply an issue of an excluded group living in greater relative poverty. It also presents big challenges for Government. The

growing gap between regulated employee wages and unregulated self-employed earnings provides an added, artificial, incentive for firms to move away from an employer-employee model and towards a customer-contractor model, even when it is less efficient to do so. This potentially accelerates changes that are already underway as technology changes. These underlying technological changes that facilitate self-employment already mean that policies such as employee rights and minimum wages, designed for a world of employer-employee relationships, are likely to become less and less effective over time. The artificial incentive to move towards customer-contractor models of working exacerbate and reinforce this trend.

Half of London's self-employed are in low pay

In London, the latest available data is from 2010-11. As set out in Box 1, sample sizes from the FRS are too small to conduct analysis at the London-level, so we rely on HMRC's Survey of Personal Incomes (SPI) dataset for analysis of the low-paid self-employed in London. We only report pay on a monthly basis for London, as data on hours worked is not available in the SPI dataset.

We estimate that in 2010-11, 319,000 self-employed Londoners were in low monthly pay. This is equivalent to 52% of self-employed Londoners, a proportion that is very close to the UK-wide estimate. The box below sets out how we arrived at this estimate.

If London has followed the trend at the UK-level since 2010-11, it is likely that this figure will have, if anything, slightly increased over the past four years, to around 55%.

Box 2: Estimating low paid self-employment in London

As set out in Box 1, we use HMRC's SPI dataset to measure low paid self-employment in London, and make an adjustment based on national-level average difference between SPI and FRS.

The table below shows how the FRS and SPI datasets compare in their estimates of low-paid self-employment at the national, UK level. Over the course of five years, the average percentage difference between the two rates is 20%.^[1]

Dataset UK-wide	% of self-employed on low monthly pay (whole of UK)					
	2006-07	2007-08	2008-09	2009-10	2010-11	Average
HMRC SPI	53.60%	54.62%	N/A	61.85%	63.29%	58.34%
FRS	44.48%	46.94%	47.86%	51.48%	52.49%	48.65%
Percentage difference	20%	16%	-	20%	21%	20%

As set out in Box 1, we are unable to look at London's proportion of self-employed in low pay using the FRS. Instead, we need to use the HMRC SPI dataset. In this dataset, 63% of London's self-employed are in low pay. However, as set out in Box 1, there are a number of reasons why this may be an over-estimate, and indeed, the table above shows that the HMRC SPI dataset does generate a higher low pay rate than FRS at the UK-wide level.

We have therefore adjusted our estimate of low paid self-employment downwards. To do this, we have assumed that the difference in estimates between the two datasets (20%) at the UK-level represents the likely size of the bias at the London level. This results in an adjusted estimate of 52% of London's self-employed being in low pay, equivalent to 319,000 individuals.

^[1] The 2008-09 HMRC SPI dataset is not currently available, so this year is excluded from the HMRC SPI average.

The cost of living in London is a particular challenge

Whilst the proportion of self-employed Londoners who are in low pay is similar to the national average, Londoners face higher costs of living. Self-employment income tends to be more volatile, which means that such higher costs are likely to be especially difficult to cope with. One way of assessing this is to estimate the proportion of

individuals who earn less than a full-time employee on the Living Wage, which is calculated based on the cost of living across the UK. There is a separate London Living Wage, which is calculated based on the cost of living in London. On this basis, around 67% of self-employed Londoners earned less than the equivalent of a full-time employee on the London Living Wage. In comparison, 64% of the UK's self-employed earned less than the UK-wide Living Wage.

Figure 3a: Proportion of London's self-employed earning less than a FTE on the London Living Wage

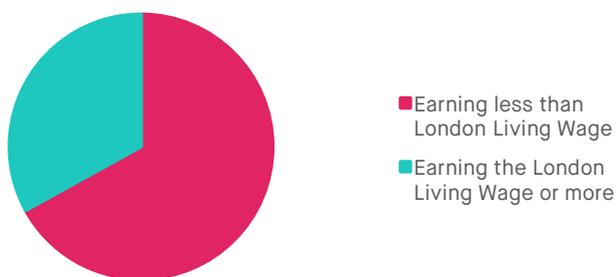
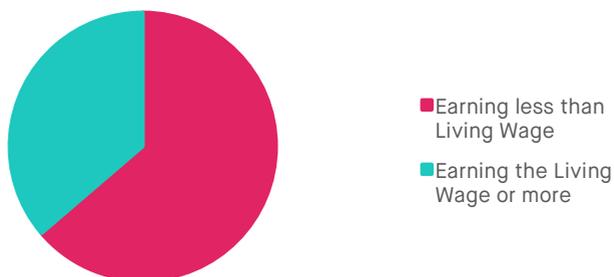


Figure 3b: Proportion of London's self-employed earning less than a FTE on the UK-wide Living Wage



Source: SMF analysis of HMRC SPI (2010/11). Living Wage rate taken from 2011 (£8.30 in London; £7.20 outside). Full-time employee assumed to work 35 hours per week. We include earnings from employment and self-employment in this chart.

Do the self-employed rely on other sources of income?

A common reason given to worry less about the low-paid self-employed is that they have other sources of income on which to rely – whether personal or household. For some financially secure individuals, self-employment may top up income from elsewhere, and individuals may have made an explicit decision to trade off pay for flexibility or greater autonomy.

The low-paid self-employed Londoners in our dataset earn less than 2/3 of the median employee pay, which was £13,036 in 2011.¹⁵ As set out in Box 1, these earnings can include both earnings from self-employment and, in cases where self-employed people also have an employee job as a second source of income, earnings from employment as well. However, having employee income is relatively uncommon amongst London's low-paid self-employed: only 6% have earnings from employment, and of those that do the median is £1,520. This compares with 8% of self-employed people across the UK and 8.5% of self-employed people in London, with medians of £3,000 and £3,270 respectively. If we count income only from self-employment, and disregard income from employment, our estimate of low-paid self-employment in London rises slightly – but only by around 1%. These figures suggest that few of London's self-employed on relatively low incomes have substantial earnings from employment.

The data we use allows us to examine sources of unearned income, such as interest or dividends from savings and investments, or from pensions (but excluding benefits or tax credits). We find that few of London's low-paid self-employed rely on other unearned sources of income. From the HMRC dataset we have information on income from savings, investments, and pensions. Our analysis shows that 77% of low-paid self-employed Londoners have no income from savings, investments or pensions. Furthermore, many of those with other sources of income only have very modest amounts: **85% of London's**

low-paid self-employed have £1,000 or less in other income sources aside from employment (including those with no income).

Low-paid self-employed Londoners are much more likely to only have earned income to rely on compared to the low-paid self-employed across the rest of the country. The same dataset shows that **across the UK as a whole, 64% have no other source of personal income, and 76% have additional earnings of £1,000 or less on top of their employment earnings.** The difference between London and the UK is largely driven by pension income: whereas 18% of low-paid self-employed individuals in the UK receive pension income, the same is only true of less than 10% of London's low paid self-employed. **The low paid self-employment story in London is much more about working age individuals than for the UK as a whole.**

More broadly, there is little evidence that the self-employed are more likely to benefit from additional income sources compared to employees. **A far greater proportion of low-paid employees in London and across the UK receive at least some additional income on top of their employment earnings,** although the amounts received tend to be smaller, with most receiving less than £1000.

Figure 4a: Proportion of low paid self-employed Londoners who receive other sources of personal income, aside from earnings

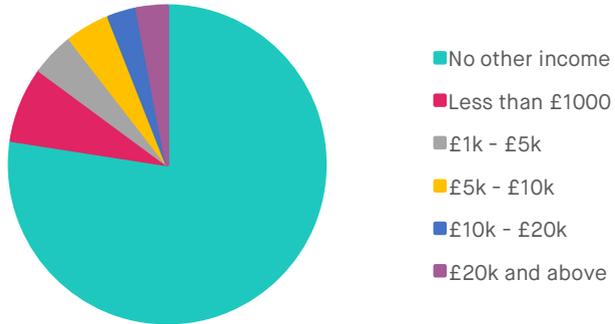


Figure 4b: Proportion of low paid self-employed UK-wide who receive other sources of personal income, aside from earnings

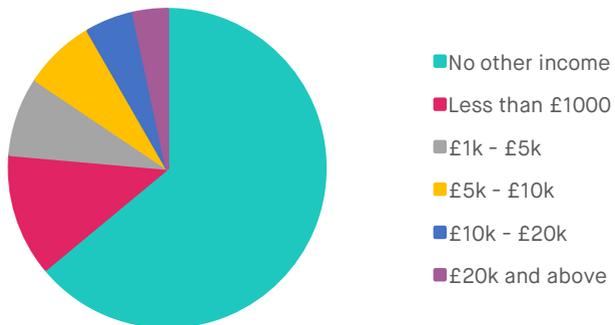


Figure 4c: Proportion of low paid London employees who receive other sources of personal income, aside from earnings

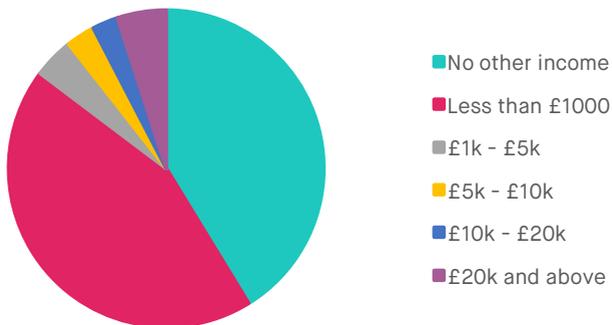
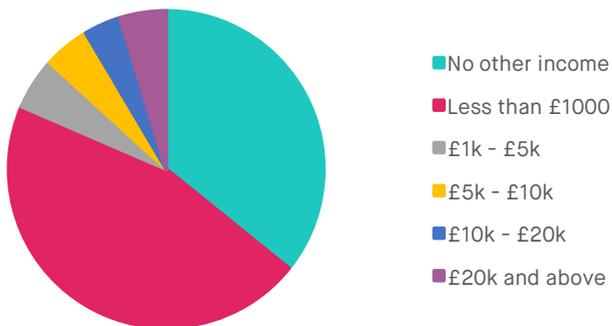


Figure 4d: Proportion of low paid employees UK-wide who receive other sources of personal income, aside from earnings



Source: SMF analysis of HMRC SPI (2010/11). Living Wage rate taken from 2011 (£8.30 in London; £7.20 outside). Full-time employee assumed to work 35 hours per week. We include earnings from employment and self-employment in these figures.

What about household income? Although an individual may receive relatively little from their self-employment earnings, they may still be relatively well-off because they live in a household where another earner brings in additional income. Data on household income is not available from the HMRC SPI dataset, so for this analysis, we show UK-wide data only. The chart below shows where the UK's low paid self-employed come from in the household income distribution.¹⁶

It is indeed the case that many low-paid self-employed individuals live in relatively high income households. However, **the low-paid self-employed are more likely to live in low income households than their employee counterparts.** The traditional measure of low income for households is 60% of the median or below.¹⁷ **Around 28% of the low-paid self-employed are also in low income households – or around 600,000 people across the UK. By comparison, just 19% of low-paid employees are in low income households.** This pattern – of the low-paid self-employed being more likely to come from poorer household than their employee counterparts – looks very similar even when pay is calculated on an hourly basis.

Figure 5: Low-paid self-employed and low-paid employees by equivalised household income (monthly income)



Source: SMF analysis of the FRS (2013/14).

From a public policy perspective, it is clear that we should be more worried about the 28% of low paid self-employed who are also in low income households, rather than those who have other sources of household income to rely on.

However, there are a number of reasons to look in detail at the issue of low pay more broadly too. Aside from the benefits system, increasing pay is one of main ways in which households can be lifted out of poverty. This is clearly recognised in Government policy over a number of years, which has focussed on lifting employees out of low pay through policies around training and skills, and more directly, through the national minimum and national living wage. These types of policies differ from those focussed around household income, in that they are justified on the basis of delivering economic benefits through increasing productivity, as well as reducing poverty. These policies are a clear reflection of the current Government's aim to move "from a low wage, high tax, high welfare economy to a higher wage, lower tax, lower welfare economy".¹⁸ This squarely puts the emphasis on improving pay rather than household incomes in lifting people out of poverty. The higher proportion of low paid self-employed who also live in low income households if anything provides more of a case for intervention than for low-paid employees.

In the next section, we explore what the low-paid self-employed look like – their demographics, the sectors they work in and how easily they escape low pay, with a focus on London.

3. WHAT LONDON'S LOW PAID SELF EMPLOYED LOOK LIKE

In this section, we explore some of the key characteristics of London's low-paid self-employed: their age, gender, and the sectors that they work in. We use data from HMRC's SPI dataset for this analysis. This section focuses in London, however, comparative UK-wide data can be found in the Annex to this paper.

Age

London's self-employed tend to be older than London's overall population of earners. London's low-paid self-employed sit somewhere in between, younger than other self-employed people living in London, but older than London's general population of workers.

Across the UK as a whole, growth in self-employment has been particularly stark among older people.¹⁹ This might potentially reflect changes to work and retirement patterns, with older people choosing to stay in work for longer.

In the years that we are able to look at using HMRC SPI data, the disproportionate number of older people going into self-employment is apparent, but less marked in London compared to the rest of the UK. London's self-employed (low-paid and otherwise) tend to be younger than the UK's self-employed generally. This is partly because London has a younger population of workers, but also because the proportion of older people in self-employment in London is lower.

Figure 6: Age profile of London earners, London self-employed, and London low-paid self-employed, 2010/11 (%)



Source: SMF analysis of HMRC SPI (2010-11).

Gender

Men make up a large proportion of the low-paid self-employed in London – around 67%. This is partly because they are much more likely to be self-employed; men account for 72% of London’s self-employed. If anything, the gender bias is slightly smaller for the low-paid self-employed compared to the self-employed generally, with women disproportionately likely to be in low pay. There is little difference in profile between London and the UK.

Figure 7a: Gender of London's low-paid self-employed, 2010/11 (%)

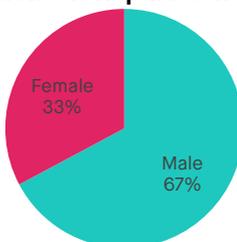
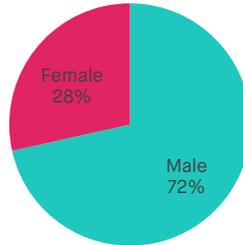


Figure 7b: Gender of London's self-employed, 2010/11 (%)

Source: SMF analysis of HMRC SPI 2010-11.

Sectors

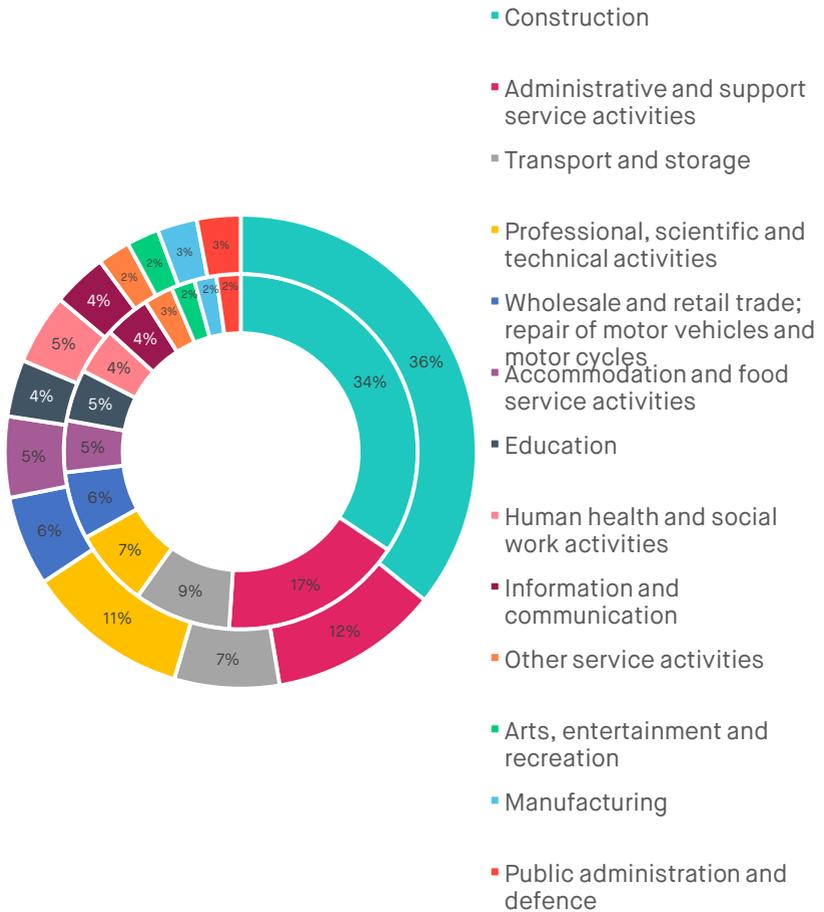
Five sectors account for 73% of London's low paid self-employed. The same five sectors account for 64% of the UK's low-paid self-employed. They are:

1. **Construction**, which includes building site work, electricals and plumbing, decoration and roofing. The level of low paid self-employment in construction is roughly in line with the average across sectors, however, because there is such a large number of self-employed individuals in this sector, it accounts for around 34% of London's low-paid self-employed, around 96,000 individuals.
2. **Administrative and support activities**, which includes a range of different types of activities, but UK-wide analysis using the FRS shows that the most common sub-component for the low-paid self-employed is services to buildings & landscape activities, such as cleaning and gardening. Individuals in this sector are more likely to be in low pay than the sector average. This applies to the self-employed and employees, who are also more likely to be in low pay than average. This sector is especially common among women who are in low-paid self-employment in London: it accounts for 39% of this

group. Overall, this sector accounts for 17% of London's low-paid self-employed, or around 47,000 individuals.

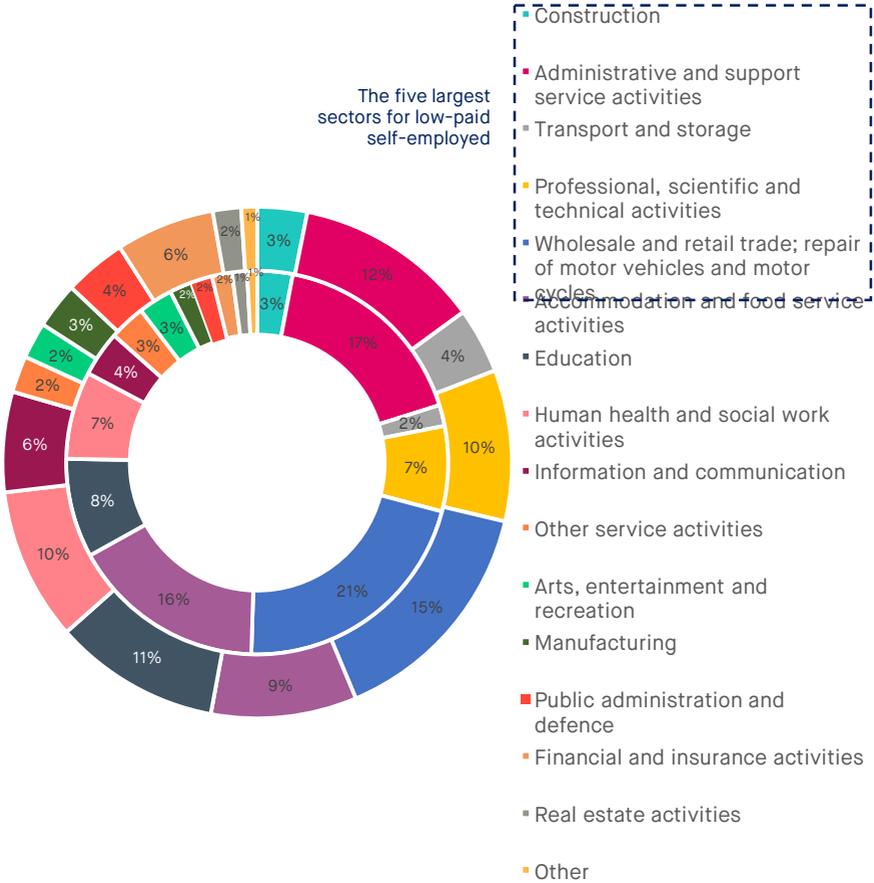
3. **Transport & storage**, of which the most important for the low-paid self-employed are "land transport", most likely taxi, lorry or coach drivers. This sector has a higher proportion of self-employed individuals than average, and a relatively high proportion are in low pay. This sector accounts for 9% of London's low-paid self-employed, or around 25,000 individuals.
4. **Professional, scientific and technical**, which accounts for 7% of London's low-paid self-employed, or around 20,000 individuals. The proportion of low-paid self-employed individuals in the professional, scientific and technical sector is perhaps surprisingly high. However, the numbers are small compared to the total number in the sector and the sector also has high numbers of self-employed who are not in low pay. UK-wide data on hourly pay shows that fewer would be considered in low pay on this basis. Further, UK-wide data shows a sharp dichotomy within this broad sector, with much of the low-paid self-employed concentrated in smaller sub-categories of design, photography and translation services.
5. **Wholesale and retail trade**. Within this sector, the majority of low-paid self-employed are in retail trade. This could be, for example, market traders, self-employed franchise holders or sales agents. This sector is also a low-paying sector for employees. Overall, the sector accounts for 6% of London's low-paid self-employed, or 17,000 individuals.

Figure 7: London's low-paid self-employed (inner ring) compared to London self-employed overall (outer ring)



Source: SMF analysis of HMRC SPI (2010/11). Excludes those whose main source of income is pensions.

Figure 8: London's low-paid employees (inner ring) compared to London employees overall (outer ring)



Source: SMF analysis of HMRC SPI (2010/11). Excludes those whose main source of income is from pensions, social security claims, or financial investments and property.

The high concentration of the low-paid self-employed in certain sectors has some clear policy implications. It implies that much progress could be made by examining these sectors in detail to explore what drives the skew to low-paid self-employment in these sectors, whether there are progression routes out, and what employers (or firms as customers) might do to support workers into higher pay.

In the next phase of the project, we plan to explore what can be done. The research raises a number of questions to explore, including:

- Why the low-paid self-employed are highly concentrated within some sectors, and whether firms contracting with the self-employed should be doing more;
- The role of training and support to move into higher paid work. Much support for self-employed often focuses on business growth, but most of the low-paid are in highly competitive areas of work, where growth prospects are likely to be limited;
- How the welfare system supports those in low-paid self-employment, particularly those who are there for long periods of time;
- The role of campaigns and information, such as the achievements that the Living Wage Foundation has brought about for employees;
- How Government will need to change its approach to tackling low pay, as policies built on the traditional idea of employer-employee relationships become less effective in reaching low paid workers over time.

In our follow up work, we plan to examine these question in greater detail, looking at the likelihood of escaping from low paid self-employment and who manages to escape.

We will use insights from interviews with the low-paid self-employed and existing models of support to explore how the low-paid self-employed can be helped into higher pay, and what the respective roles are for national Government, local government, LEPs, charities and businesses.

ANNEX

In this Annex, we set out comparative data for the UK's low paid self-employed, referred to in the main report.

Age and gender – UK's low-paid self-employed

The charts below shows how the UK's low-paid self-employed are split in terms of age and gender, based on the same dataset – HMRC's SPI dataset – as used in the main report to describe London's low-paid self-employed.

Figure A1: Age profile of UK earners, UK self-employed, and UK low-paid self-employed, HMRC 2010/11 (%)

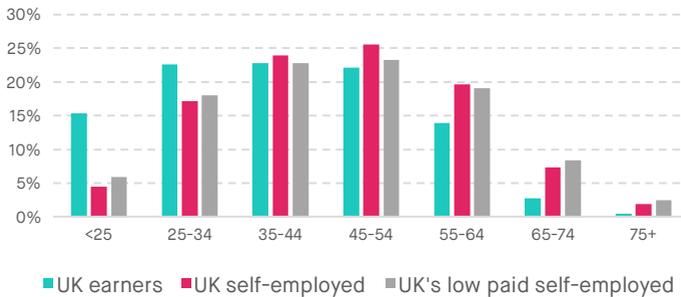


Figure A2: Gender of the UK's self-employed, HMRC 2010/11 (%)

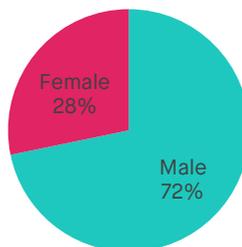
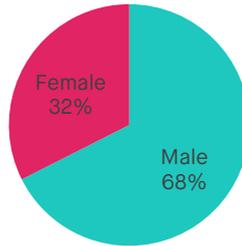


Figure A3: Gender of the UK's low paid self-employed, HMRC 2010/11 (%)

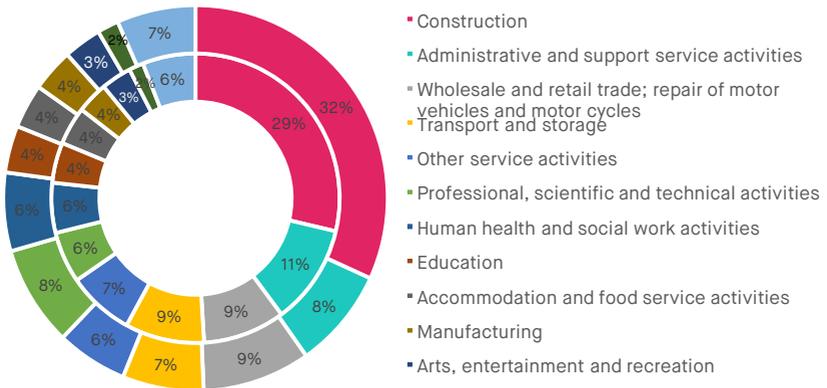


Source: SMF analysis of HMRC SPI (2010/11). Excludes those whose main source of income is pensions.

Sectors – UK’s low-paid self-employed

The chart below shows how the UK’s low-paid self-employed are split by sector, based on the same dataset – HMRC’s SPI dataset – as used in the main report to describe London’s low-paid self-employed.

Figure A4: UK low-paid self-employed (inner ring) compared to UK self-employed overall (outer ring) (%)



Source: SMF analysis of HMRC SPI (2010/11). Excludes those whose main source of income is from pensions, social security claims, or financial investments and property.

The HMRC SPI dataset does not contain more detailed sub-categories of sector than those listed above. As these high-level categories are very broad in nature, we have also used UK-wide data from the FRS to help paint a picture of what specific areas of work within these categories are most common among the low-paid self-employed. These are shown in the tables below.

Table A1: Self employment with categories, FRS 2013/14

UK LOW-PAID SELF-EMPLOYED – CONSTRUCTION	%
Construction of buildings	31.25
Civil engineering	5.81
Specialised construction activities <i>Includes demolition and site preparation, electrical, plumbing, installation, plastering, joinery, flow and wall covering, painting, roofing</i>	62.94

UK LOW-PAID SELF-EMPLOYED – ADMINISTRATIVE AND SUPPORT SERVICE ACTIVITIES	%
Employment activities	5.5
Travel agency, tour operator and other	3.28
Security and investigation activities	1.41
Services to buildings and landscape activities <i>Includes facilities, cleaning and landscaping</i>	85.27
Office administrative, office support activities	4.54

UK LOW-PAID SELF-EMPLOYED - TRANSPORTATION AND STORAGE	%
Land transport and transport via pipeline <i>Includes rail, passenger transport, taxis, freight transport</i>	93.48
Air transport	0.83
Warehousing and support activities for	2.44
Postal and courier activities	3.25

UK LOW-PAID SELF-EMPLOYED – PROFESSIONAL, SCIENTIFIC AND TECHNICAL SECTOR	%
Legal and accounting activities	14.45
Activities of head offices; management	17.33
Architectural and engineering activities	16.21
Scientific research and development	3.69
Advertising and market research	4.99
Other professional, scientific and technical <i>Includes design, photography, translation services and "other".</i>	41.43
Veterinary activities	1.9

UK LOW-PAID SELF-EMPLOYED - WHOLESALE AND RETAIL TRADE; REPAIR OF MOTOR VEHICLES AND MOTORCYCLES	%
Wholesale and retail trade and repair of motor vehicles	28.97
Wholesale trade, except of motor vehicles	17.42
Retail trade, except of motor vehicles	53.61

Source (all tables in A1): FRS (2013/14)

ENDNOTES

¹ ONS, UK Labour Market: February 2016

² Legatum Institute, Press Release, "Global prosperity index: UK economic performance outstripping European rivals", 2015

³ N. Broughton, Self-employment and ethnicity: an escape from poverty?, JRF, 2015

⁴ Citizens Advice, Neither one thing nor the other: how reducing bogus self-employment could benefit workers, business and the Exchequer, 2015

⁵ Office of Tax Simplification, The closer alignment of income tax and national insurance, 2016; Office of Tax Simplification, Employment status report, 2015.

⁶ Bank of England, "Self-employment: what can be learned from recent developments?", Quarterly Bulletin 2015 Q1

⁷ ONS Regional labour market statistics, 2016

⁸ NPI, "Self-employment has led the jobs recovery in London but what does this mean for poverty?", blog, London' Poverty Profile,

<http://www.londonpovertyprofile.org.uk/blog/self-employment-has-led-the-jo/>

⁹ Institute for Fiscal Studies, Green Budget 2015

¹⁰ ONS, Business Demography 2014

¹¹ Calculated based on Family Resources Survey (2013/14).

¹² The proportion of employees in low pay has remained relatively stable when measured against a threshold of 2/3 of median income. On other measures, such as relative to the Living Wage, it has increased. See A. Corlett and L. Gardiner, Low Pay Britain, Resolution Foundation, 2015.

¹³ A. Corlett and L. Gardiner, Low Pay Britain, Resolution Foundation, 2015.

¹⁴ Our calculations are based on the 2013/14 FRS. They assume that the size of the self-employed workforce stays the same, that hourly earnings for self-employed workers increase each year in line with OBR November 2015 estimates, and that the NLW increases gradually, reaching £9.30 per hour in 2020.

¹⁵ Calculated based on Family Resources Survey (2010/11).

¹⁶ We are unable to show this split for London's self-employed as the SPI captures personal income but not household income.

¹⁷ Household low income is measured as 60% of median equivalised gross household income, including benefits and tax credits.

¹⁸ HM Treasury, Summer Budget, 2015

¹⁹ A Tinson, Growth in the self-employed sharpens the policy challenges for pensions and poverty, NPI, 2015