

# **Tough Gig:** Tackling low paid self-employment in London & the UK

Final report

Nida Broughton

Ben Richards

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Kindly supported by:



**Trust for London**

Tackling poverty and inequality

## FIRST PUBLISHED BY

The Social Market Foundation, October 2016

ISBN: 978-1-910683-17-0

11 Tufon Street, London SW1P 3QB

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## ACKNOWLEDGEMENTS

This research and publication has been made possible by the generous support of Trust for London.

We would particularly like to thank Mubin Haq at Trust for London, and Emran Mian and Nigel Keohane for valuable comments and input throughout the project. We are grateful to attendees at our roundtable event who contributed valuable insights, and individuals at range of charities, unions and support organisations who met with us to discuss their experiences of working with the self-employed and their perspectives on the challenge of tackling low pay. We are especially grateful to the self-employed individuals who gave up their time to speak to us about their working conditions and ambitions for the future.

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## ABOUT THE AUTHORS

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Nida is Chief Economist at the SMF, where she leads research on skills policy, employment, entrepreneurship and analysis of public spending. She also undertakes research on a range of public policy areas including healthcare, education, housing and consumer markets.

Nida previously worked at the House of Commons, where she advised MPs and committees on a broad range of economic issues, and in particular, on financial services, and at Ofcom, the UK regulator and competition authority for communications markets. She has an MA (Cantab) in Economics from Cambridge University and an MSc in Economics from Birkbeck College, University of London.

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Ben joined the SMF in March 2014. Ben works on projects including an analysis of the expenditure patterns of households on low incomes, and an assessment of key areas of focus for business policy leading up to the 2015 general election. His other research interests include theories of social justice, and debates on multiculturalism and social solidarity.

Ben has a PhD in Social Policy from the London School of Economics, and has previously worked as a Researcher at the Centre for Analysis of Social Exclusion, LSE. He has also conducted research for charities including Oxfam and the Child Poverty Action Group.

## CONTENTS

Executive Summary	8
Chapter 1: The challenge of low-paid self-employment	15
Chapter 2: Where do the low-paid self-employed work?	22
Chapter 3: What helps the self-employed escape into higher pay?	39
Chapter 4: What should be done?	58
Annex	76
Endnotes	78

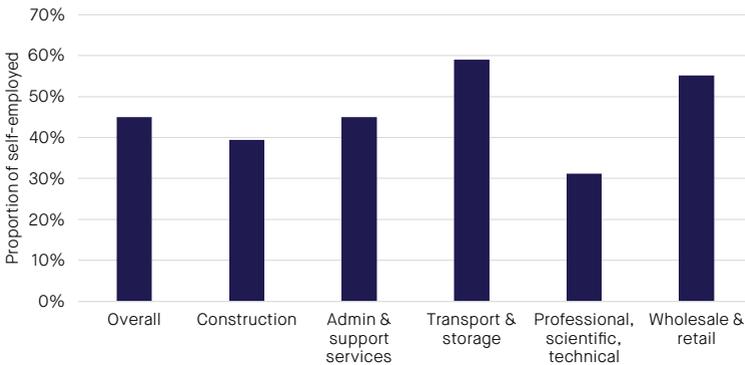
## EXECUTIVE SUMMARY

Theresa May’s new Government is setting out to build an economy “that works for all”. Her first speech as Prime Minister highlighted the plight of those in work but struggling to make ends meet. Much has been done to tackle low pay among those in work, in response to the problem of in-work poverty. The introduction of the National Living Wage this year is a prime example. But there is more to do, and an urgent priority must be the group of workers left out from initiatives such as the National Living Wage – the self-employed.

The SMF’s first paper on low-paid self-employment calculated that just under half would be effectively paid below the National Living Wage in 2016, amounting to just over 1.7 million workers. Furthermore, we found that they are less likely than their employee counterparts to have other sources of household income to rely on. Nowhere is the challenge most severe than in London, where high living costs make the volatility of self-employment income especially difficult to cope with.

The proportion of self-employed people that we estimate to be paid below the National Living Wage varies substantially across sector, but is especially high in transport and storage (59%), wholesale and retail (55%) and administrative and support services (45%).

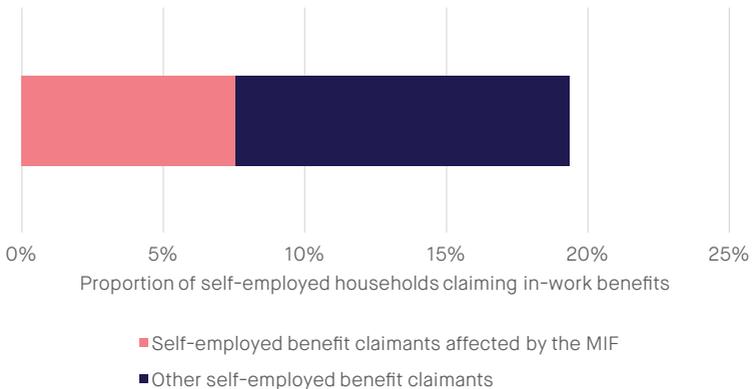
**Figure 1: Proportion of self-employed estimated to be paid below the National Living Wage, 2016 (age 25+ only)**



Source: SMF analysis of FRS 2014-15

Financial pressures are set to become more severe as Universal Credit is rolled out, as the amount low-paid self-employed individuals can claim will depend on how much they would be expected to earn if they were paid at the National Living Wage, rather than their actual earnings. We estimate that around a fifth (19%) of families with an individual whose main job is self-employment are claiming in-work benefits such as tax credits and housing benefit that will be replaced by Universal Credit. We estimate that of this 19%, around 39% (or over 190,000 families) have earnings below the minimum income floor, and so are likely to be worse off under Universal Credit.

**Figure 2: Proportion of self-employed households who are benefit claimants (aged 25+ only)**



Source: SMF analysis of the HBAI 2014-15.

How to help those in self-employment is becoming a greater problem for Government as the rise in self-employment continues. 1 in 7 workers is now self-employed, a proportion that has grown by a quarter since the early 2000s. Even before the introduction of the National Living Wage, self-employment carried a greater risk of being in low pay – in 2014-15, around 45% were in low hourly pay, compared to around 21% of employees. This gap between employee and self-employed is evident across all five key sectors for self-employment that we examine in further depth in this report – construction; transport & storage; administrative & support

services; professional, scientific and technical; and wholesale and retail.

There are routes out of low pay for the self-employed. We find that over the course of a year, on average around a quarter of low-paid self-employed will escape from low pay. We assess three different approaches to escaping low pay, drawing on our data analysis and interviews with the low-paid self-employed: increasing the number of hours worked; increasing the rates of pay per job; and moving into a different line of work.

- **Increasing hours:** Our analysis shows that this is a limited escape route for the low-paid self-employed, who already work longer hours than their low-paid employee counterparts. For those who are in low monthly pay, 60% of the self-employed work 30 hours or more a week, and 40% work 40 hours or more a week. This compares to only 35% of low-paid employees who work 30 hours a week or more, and only 10% who work 40 hours a week or more. We find that few low-paid self-employed manage to escape low pay by increasing the numbers of hours they work.
- **Increasing the amount charged:** One way to escape low pay could be to raise prices, for example by providing a higher quality service, or finding customers that are willing to pay more. We are not able to directly observe how the self-employed in our datasets charge for the work they do. However, it was a theme that emerged in our qualitative interviews. In some sectors, such as construction, where there are recognised qualifications that potential customers look for in deciding who to employ, training was seen as route to being able to earn more. In other sectors, the route out of low pay appeared less clear-cut.
- **Moving into a different line of work:** This could include moving into sectors or areas of work where pay is higher, or finding a higher-paying job as an employee, or both. Few low-paid self-employed individuals tend to make dramatic cross-sector moves from year to year. However, we find that around 15% of the low-paid self-employed who stay in work over the course of a year become employees. And strikingly, 57% of those who become an employee escape from low pay, compared to only 24% of those who stay self-employed. However, making such a

transition is not straightforward for the self-employed in some sectors. In many areas of work, self-employment is the norm, meaning that becoming an employee can require breaking into a new line of work.

Across all three strategies, training has a potential role to play – in helping the self-employed find more customers, helping them to move into a position where they are able to charge more for their services, or move into a different line of work. Our analysis shows that 30% of low-paid self-employed individuals who receive training escape from low pay one year later, compared to 24% of those who do not. However, the self-employed are less likely to receive training than employees. Managing the financial cost and taking time out to undertake training can be particularly challenging for those in self-employment.

In this report, we set out recommendations for central and local government. But charities, trade unions, campaign groups and platforms such as Uber and Handy also have a positive role to play in addressing low pay among the self-employed. Our recommendations fall into three areas: addressing the tax and regulation gap; giving the self-employed a stronger voice; and supporting the self-employed into higher pay.

## ADDRESSING THE TAX & REGULATION GAP

It would not be possible or desirable to regulate self-employed pay. But Government must recognise that differences in tax policy and regulation across employee and self-employed create artificial incentives for firms to move towards a self-employed/contractor relationship. It needs to be especially alert to potential unintended consequences from implementing the national living wage.

- **Government should examine how it can minimise tax gaps between employees and self-employed, and avoid any future changes to the tax system that widen the tax differentials between employment statuses.**
- **The Department for Business, Energy and Industrial Strategy (BEIS) should establish an employment status review with a view to setting a statutory employment status test for both tax and employment**

**regulation purposes.**

- **HMRC should set up an accessible portal to inform workers about their rights and allow them to confidentially submit concerns about false self-employment. HMRC should set aside resources to investigate complaints related to false self-employment and the National Living Wage, and share anonymised data with the Low Pay Commission.**
- **The Low Pay Commission's remit should be amended to ensure that it is explicitly required to take into account the effects on self-employment in making recommendations on future National Living Wage rate rises.** The LPC should continue monitoring trends in the pay of the self-employed over time, as some impacts may be long-term in nature.
- **The ONS should explore how more timely data on self-employment and pay can be collected.**

## GIVING THE SELF-EMPLOYED A STRONGER VOICE

Giving the self-employed a stronger voice could help them improve their bargaining position and negotiate higher pay. Borrowing from strategies that have been used to boost employee pay, we think that campaign groups and unions could do more to represent the interests of the low-paid self-employed. The growing use of platforms by the self-employed provides an opportunity to better target support. It is also important that self-employment opportunities are fairly and clearly advertised so that workers understand the costs, risks and benefits.

- **The Living Wage Foundation should explore how it can communicate its Living Wage rates to the self-employed and their customers, including through platforms, and encourage platforms to do more to show how many of their workers effectively earn the Living Wage.** This could include exploring the option of platform accreditation.
- **The London Mayor should raise awareness of the implications of changes in the London Living Wage for the living standards of the self-employed.**

- **Government should encourage platforms to send users information about unions operating in their sector.**
- **BEIS should explore how it could facilitate the setting up of specific associations for the self-employed in sectors where low pay and self-employment are above average. This exploration should examine the option of setting aside a small funding pot to help fund start-up costs for such associations.**
- **BEIS and the Advertising Standards Authority should review advertising of self-employment opportunities with a view to ensuring that associated costs, risks and potential liabilities are clearly stated in marketing materials.**

## SUPPORTING THE SELF-EMPLOYED INTO HIGHER PAY

For those stuck in low-paid self-employment, there is relatively little targeted support available. The self-employed receive relatively little help with training, despite the fact that they find it harder to get the training they need. This makes it harder for them to acquire new skills and accredit the skills they already have. It also has to be recognised that for some self-employed, the way out of low pay is through moving into employee jobs, rather than trying to grow their existing businesses.

- **The London Enterprise Panel should set up pilot training schemes for the low-paid self-employed, with evaluation of the impact training has on pay.** As a first step, this should involve setting up a voucher scheme for low-paid workers in the construction sector to undertake certified training. Depending on the outcomes of these pilots, central Government should consider whether such schemes should be rolled out nationally, or to other sectors.
- **BEIS should work with platforms to facilitate the development of a verified, portable ratings file that workers can download and take with them to future jobs.**

- Existing small business support centres should develop links with broader employment support organisations that can provide wider support on employee job opportunities
- DWP should ensure Jobcentre Advisors are equipped and trained to provide support on making the transition from self-employed to employee, and moving across sectors, as well as business growth. The Government's planned trials should examine the best way of providing this support, potentially looking at models whereby Advisors refer individuals on to more specific sources of advice, depending on their needs.
- Low-paid self-employed individuals being moved from tax credits to universal credit should be given a 12 month exemption period from the minimum income floor to give them time to take steps to increase their earnings. This is separate to the existing 12 month period for start-up businesses.

## CHAPTER 1: THE CHALLENGE OF LOW-PAID SELF-EMPLOYMENT

### WHY WE NEED TO TAKE LOW-PAID SELF-EMPLOYMENT SERIOUSLY

In 2016, Government introduced a new National Living Wage to tackle low pay, set at £7.20 an hour for employees aged 25 or over. But a key group of workers were left out: the self-employed, who are not entitled to the National Living Wage.

The SMF estimates that in 2016, there were 1.7 million self-employed workers paid below the National Living Wage. This 1.7 million makes up around 45% of self-employed individuals in the UK. Over time, as the National Living Wage rises, the gap between employee and self-employed is set to widen.<sup>1,2</sup> In our previous research, we estimated that by 2020, 1.88 million self-employed workers could be paid below the National Living Wage.<sup>3</sup>

Analysis from other studies confirms that the self-employed are more likely to be on low earnings compared to employees.<sup>4</sup> These studies also show that there is a very wide range in earnings across self-employed individuals, with many more self-employed individuals on very low pay compared to employees. Around a fifth earn less than £100 per week, compared to only 5% of employees.<sup>5</sup> Further, the self-employed tend to experience more volatility in earnings, posing a challenge for personal and household finances.

The extent of low pay in self-employment matters for two reasons, firstly because increasing pay is an important way of lifting people out of poverty, and secondly, because self-employment is becoming an ever more important part of the economy.

### INCREASING PAY AS A ROUTE OUT OF POVERTY

The new Government, under Theresa May's leadership, has set out an aim to build an economy that works for everyone, with the Prime Minister's first

speech in office highlighting that it is not simply the number of people in work that matters: “you have a job but you don’t always have job security”. There is a strong recognition that simply getting into work is not necessarily a route out of poverty:

*“I know you’re working around the clock, I know you’re doing your best, and I know that sometimes life can be a struggle. The government I lead will be driven not by the interests of the privileged few, but by yours.”*

*Theresa May, July 2016<sup>6</sup>*

Further, the Government has recognised that policy needs to stay in step with longer-term economic shifts, with the recent announcement of an independent review into employment practices in the modern economy.<sup>7</sup> For the low-paid self-employed, financial pressures are likely to be more intense than for low-paid employees. Our previous research found the low-paid self-employed are less likely to have other sources of income to rely on. And they 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, just 19% of low-paid employees are in low income households.<sup>8</sup>

Financial pressures are set to become more intense with the introduction of Universal Credit. Once someone has been in self-employment for 12 months, a minimum income floor will apply.<sup>9</sup> This minimum income floor is calculated using the National Minimum Wage for the individual’s age group multiplied by the number of hours an individual is expected to look for and be available for work. If an individual’s earnings are below this minimum income floor, then the floor, rather than the individual’s actual earnings, will be used to calculate how much Universal Credit an individual should receive.

Effectively, self-employed individuals earning less than the equivalent of the national minimum wage (or the national living wage if they are aged 25 or over) will not receive any benefit income to compensate for this earnings gap. This could result in either individuals giving up work altogether or having to work very long hours to compensate. As we show in Box 1, our

analysis of the Family Resources Survey shows that a high proportion of self-employed people currently claiming in-work benefits are likely to have earnings below the minimum income floor, and so could lose out when Universal Credit comes in.

With the welfare system becoming less generous for the self-employed, tackling low pay among the self-employed is an urgent priority.

### Box 1: Self-employment and the minimum income floor in Universal Credit

Under Universal Credit, the amount an individual who is self-employed as their main job will be able to claim will be based on the highest of their actual earnings and a calculated minimum income floor.<sup>10</sup> According to existing guidelines, the minimum income floor will be calculated by multiplying the minimum wage for the individual's age group by the number of hours they are expected to work.<sup>11</sup>

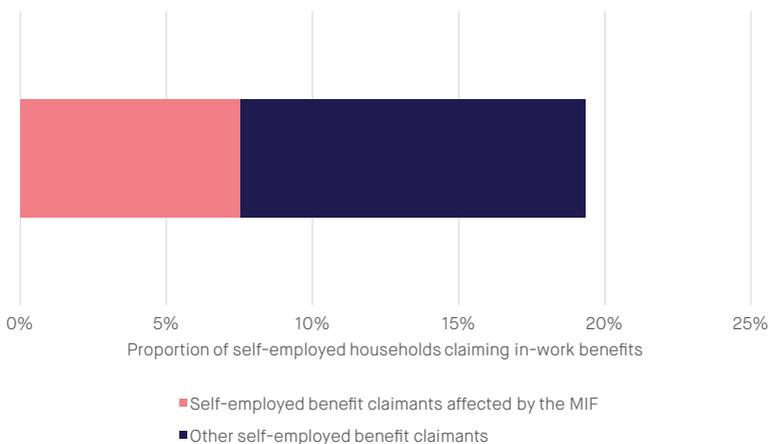
Expected hours for an individual with no children is usually 35 hours per week. For those with children, expected hours may vary depending on circumstances, but guidelines suggest 25 hours a week.<sup>12</sup> We use these guidelines to estimate what proportion of single self-employed individuals who are currently claiming in-work benefits would fall under the minimum income thresholds, and so could lose out from Universal Credit.

We only analyse those who are aged 25 or over (and so for whom the higher National Living Wage rather than the National Minimum Wage is used to calculate the minimum income floor). We assume that self-employment is an individual's main job if they earn more from self-employment than from employee earnings. For simplicity, we also exclude cases where the self-employed individual has a second job in addition to their main self-employment job. There are relatively few individuals in the dataset for whom this is the case, less than 4% of main earners, and 5% of second earners.

Our numbers come from the Households Below Average Income 2014-15 dataset (based on the Family Resources Survey). In this survey, around a fifth (19%) of families with an individual whose main job is self-employment are claiming in-work benefits such as tax credits and housing benefit that will be replaced by Universal Credit. As shown in the diagram below, we estimate that of this 19%, around 39% (or over 190,000 families) are likely to have earnings below the minimum income floor, and so are likely to be worse off under Universal Credit.

There are exceptions to the rules set out above that we are unable to apply using the data we have, including the “start-up period” which means that the minimum income threshold only applies after the first 12 months in self-employment. Whilst we do not know exactly how many benefit-claiming self-employed individuals this would apply to, figures on total self-employed individuals suggest that around 90% have been employed for 12 months or longer.<sup>13</sup>

**Figure 3: Proportion of self-employed households who are benefit claimants (aged 25+ only)**



Source: SMF analysis of the HBAI 2014-15.

## SELF-EMPLOYMENT IS BECOMING MORE COMMON

Furthermore, self-employment is rising, now accounting for 1 in 7 workers in the UK economy, a proportion that has grown by a quarter since the turn of the century.<sup>14</sup> There are many positive reasons behind this rise: technological and regulatory change have made it much easier to become self-employed, opening up a wider set of choices to UK workers, and bringing the potential for increased flexibility, autonomy and control in the process.

There are reasons to think that the shift towards self-employment is unlikely to reverse, and may well increase. Technology is changing the nature of economies of scale that previously tipped the advantage in favour of large employers. The rise of platforms such as Uber, Handy and TaskRabbit is an exemplar of this trend. They give individual workers the ability to find and connect with a wide network of potential customers, an advantage that, before the rise of platforms, only companies with large advertising and marketing budgets would have. Lower search costs help to expand markets, creating benefits for both workers and end-consumers.<sup>15</sup>

Whilst the proportion of people exclusively using such platforms to find work is likely to be relatively small, the overall numbers of people using them is relatively high. A recent survey found that 21% of 16-75 year-olds tried to find work through platforms in 2015, a proportion that rises to a third among 25-34 year-olds. Around half of those who sought work actually found work, equivalent to around 4.9 million individuals.<sup>16</sup>

However, if increasing numbers of workers are in self-employment, then the reach of the Government's low pay policies – which are largely focused on employees – will become shorter and shorter. In fact, Government policies designed to improve the lives of employees – such as the National Living Wage, employee rights, employer-subsidised training and pensions auto-enrolment risk making the traditional employer-employee model artificially expensive compared to models based on self-employment. The situation is made worse by differences in the tax system, such as elements of National Insurance contributions that do not apply to the self-employed.

## THE CHALLENGE FOR LONDON

The challenge is especially acute in London, where 18% of those in work are self-employed. Low-paid self-employment in London is close to the UK average rate. But London's low-paid self-employed are likely to face particular difficulties due to London's high cost of living, combined with the fact that self-employed earnings tend to be more volatile than employee earnings. SMF analysis found that in 2010-11, around 67% of self-employed Londoners earned less than the equivalent of a full-time employee on the London Living Wage. London's low-paid self-employed are also less likely than their UK counterparts to have other sources of personal income aside from their earnings in work.<sup>17</sup>

This report examines what should be done to support the low-paid self-employed, with a particular focus on London. This publication follows our paper *Tough Gig: Low paid self-employment in London and the UK*, which set out findings from the SMF's data analysis of the Family Resources Survey and the HMRC's Survey of Personal Incomes examining the scale of low-paid employment in the UK and London.

In the rest of this report we:

- Set out where the low-paid self-employed work, examining five key sectors in detail
- Explore the dynamics of low-paid self-employment, looking at the proportion of low-paid self-employed who escape into higher pay, and what factors are associated with this
- Set out our policy recommendations for what should be done.

## OUR METHODOLOGY

This report builds on our quantitative analysis of the Family Resources Survey and HMRC's Survey of Personal Incomes, the key findings of which were presented in our report *Tough Gig: low-paid self-employment in London and the UK*. In this report we also rely on:

- Literature review and analysis of existing data sources on self-employment and low pay
- Analysis of Understanding Society (UKHLS) to explore the dynamics of self-employment in the UK. Additional details on our methodology for this part of the analysis is in the Annex. Analysis of the Family Resources Survey (FRS) and associated Households Below Average Income (HBAI) datasets to explore earnings of self-employment.
- Twenty in-depth interviews with low-paid self-employed individuals living in London and working across the largest sectors of low-paid self-employment. Additional details on our approach to the qualitative part of the research are contained in the Annex.
- Round-table discussions and meetings with policymakers, charities, and support organisations.

## CHAPTER 2: WHERE DO THE LOW-PAID SELF-EMPLOYED WORK?

### THE MAIN SECTORS FOR LOW-PAID SELF-EMPLOYMENT

As set out in Tough Gig: low-paid self-employment in London and the UK, five sectors account for 73% of London's low-paid self-employment, as measured on a total earnings basis.<sup>18</sup> The same sectors account for 64% of the UK's low paid self-employed. They are:

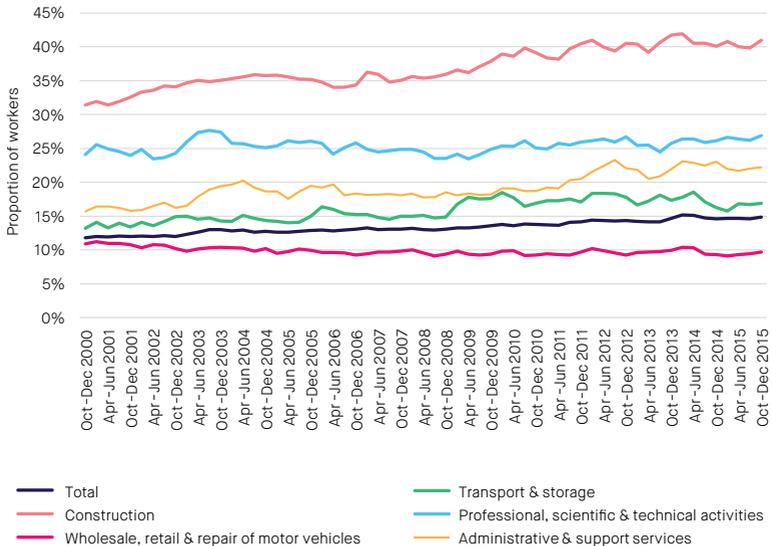
- 1. Construction**, which includes building site work, electricals and plumbing, decoration and roofing.
- 2. Administrative and support activities**, which includes a range of different types of activities, but UK-wide analysis using the FRS shows that the most common sub-component for the low-paid self-employed is services to buildings & landscape activities, such as cleaning and gardening.
- 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**, of which the most important for the low-paid self-employed are 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.

London generally exhibits more concentration of its low-paid self-employed workers in specific sectors. The UK's low-paid self-employed are slightly more evenly distributed across sectors compared to London, with other service sectors (which includes personal services such as hairdressing, and washing services) and human health and social work slightly more important.

Patterns of low pay and self-employment differ across these five sectors. As shown in Figure 4, four of these sectors have above average levels of self-

employment compared to the wider economy. There have been substantial shifts in the workforce from employees to self-employed in some areas, in particular construction and administrative and support services. There has also been a smaller shift in transport and storage. Wholesale and retail is the one sector where self-employment is less common, and where there is little sign of the economy-wide shift away from employees. However, it still makes up a significant proportion of the absolute number of self-employed individuals because it is a large sector overall.

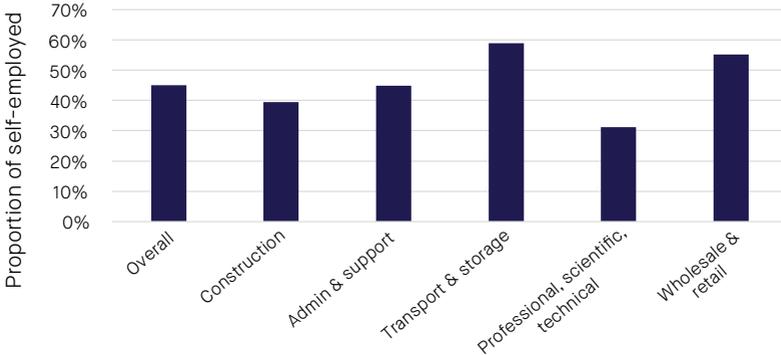
Figure 4: Self-employment as proportion of all workers, by sector



Source: Quarterly Labour Force Survey. Self-employed in main job.

Looking more specifically at hourly pay, across the economy as a whole, as set out earlier, we estimate that 45% of self-employed individuals (equivalent to around 1.7 million workers) are paid below the National Living Wage (£7.20 an hour). As shown in the chart below, our estimates vary substantially across sector, from around 31% in professional, scientific and technical activities, to 59% in transport and storage.

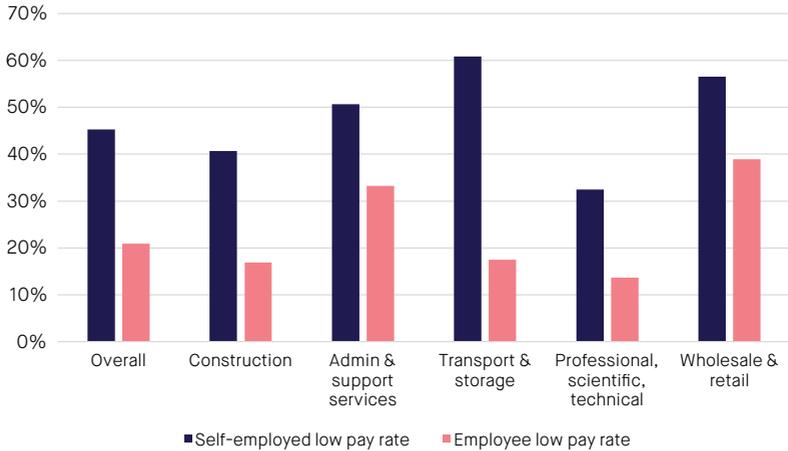
Figure 5: Proportion of self-employed estimated to be paid below the National Living Wage, 2016 (age 25+ only)



Source: SMF calculations based on the Family Resources Survey 2014/15. Please see Tough Gig: Low paid-self-employment in London and the UK for our methodology.

In some of these sectors, such as admin and support services, and wholesale and retail, our analysis of 2014-15 data shows that employees were also likely to be in low pay (measured as 2/3 of median earnings or below), although this is likely to have changed since the introduction of the National Living Wage. And it is striking that across all sectors that we look at, the risk of lower pay was greater for the self-employed even before the National Living Wage was introduced.

**Figure 6: Low pay rates among employees vs self-employed, by sector, UK, 2014-15**



Source: SMF calculations based on Family Resources Survey 2014/15. Low pay is defined as 2/3 median hourly earnings or below. Please see *Tough Gig: Low paid-self-employment in London and the UK* for our methodology.

In the rest of this chapter, we explore in further detail five key sectors that represent the largest sectors for low-paid self-employment in London, and additionally constitute significant sectors for low-paid self-employment across the UK more widely. We draw on additional analysis of trends in these sectors and examine challenges faced by the self-employed based on our interviews with self-employed individuals in London. We look at how the sectors have evolved over time, and seek to understand the extent to which these sectors are low-paid generally, or whether low pay is specifically associated with self-employment. We also explore some of the advantages and disadvantages of self-employment.

## CONSTRUCTION

- 41% of workers are self-employed, a proportion which has been rising
- We estimate that 39% of self-employed workers aged 25 or over are paid below the National Living Wage, equivalent to 323,000 workers.

Low pay in the construction sector is slightly lower than the UK economy-wide average. We estimate that 39% of the self-employed aged 25 or over in construction are paid below the National Living Wage, compared to a 45% economy-wide average. However, this still means a substantial gap between self-employed and employees, who are subject to the National Living Wage. And it is concerning that – even before the introduction of the National Living Wage – the self-employed were over twice as likely to be in low pay as employees.

Construction has seen an especially large shift towards self-employment in the past decade – with a 17% rise in the proportion of workers who are self-employed. The increase was especially sharp just after the financial crisis, which saw a fall in the number of employees, but not numbers of self-employed individuals. But even since then, the growth in the numbers of self-employed has continued apace. Self-employment now accounts for around 41% of the workforce. The UK's self-employment rate in construction is especially high compared to other countries in Europe.<sup>19</sup>

The current rate of self-employment in construction is about the same as its mid-1990s peak. For a number of decades in the UK, the construction sector has been subject to a special scheme, whereby those who engage self-employed sub-contractors deduct a certain amount of money from payment, to be set against the sub-contractors' income tax and national insurance liabilities. The scheme has been seen as a way to ensure greater levels of tax compliance in the sector among the self-employed. In the mid-1990s, the Construction Industry Scheme (CIS) was tightened, with all sub-contractors required to obtain a registration card.<sup>20</sup> The changes were credited with removing part of the artificial incentive to set up as self-employed, and resulting in 200,000 workers reclassifying as employees, or roughly a 10 percentage point drop in the proportion of the workforce who were self-employed.<sup>21</sup>

However, since then, the rate of self-employment has risen again. The rise in the rate was especially notable after the crisis, largely because the number of employees saw a sharp fall, whilst the number of self-employed individuals held up, possibly because of the lower costs and lower

uncertainty to business of engaging self-employed individuals rather than employees.

There are concerns that there are still many individuals in the CIS scheme who are “falsely” self-employed. Whilst the CIS partly levels the playing-field between employee and self-employed (by ensuring that more of the tax liabilities due are collected), there are still differences between the two that can mean that it is cheaper to engage a self-employed individual. There is no equivalent to employers’ national insurance contributions if a self-employed individual is engaged. Further, the self-employed do not have the rights that employees are entitled to, such as sick pay, annual leave entitlement and the national minimum wage. In 2010, the Government estimated that around 300,000 workers treated as self-employed in construction for tax purposes should be treated as employees given the working relationship they have with their engagers.<sup>22</sup>

In recent years, there have also been concerns about the growing use of intermediary companies, paid by businesses for the services of self-employed workers. The advantage of hiring self-employed workers indirectly is that the business that ultimately engages the worker does not have responsibility for determining the status of the worker. This therefore reduces the “risk to engagers of incorrectly engaging workers on a self-employed basis”.<sup>23</sup> UCATT has argued that the rise of personal service companies has increased the problem of false self-employment.<sup>24</sup>

From the perspective of workers, self-employment can deliver advantages. Even for the low-paid, self-employment can deliver some financial advantages that being an employee would not. Those who are able to find customers directly or find more efficient ways of working, for example, may be able to enjoy higher earnings than they would otherwise.

*“For me to make myself better off I had to make myself self-employed. I could go round and do 10 jobs in a day at different houses ... or I could do one job for someone and earn £50 £60 a day, £80 a day.”*

*Self-employed builder*

And the tax advantages of self-employment may go to the worker as well as to any firm that decides to engage them on a self-employment basis rather than an employee basis: some of the lower tax burden may result in higher net pay than would otherwise be the case. It is also likely that, despite the CIS, many of the self-employed continue to benefit from paying lower levels of tax than should be due:

*“...[Under the CIS scheme] they effectively forced everyone to pay more tax than they owe up front.*

*But there’s an understanding that you get to do some cash work on the side – that they were never going to find anyway – so we can kinda roll with that. As long you got enough on your tax return as a reasonable income.”*

*Self-employed construction worker*

However, this model of working can pose difficulties for workers who are subject to more volatility in income than if they were employees. In our interviews, the lack of sick pay was particularly highlighted, and the pressure that this places on workers to continue working through ill-health.

*“Generally you just go to work when you’re ill ... yeah, unless your leg’s fallen off or something... If you’re really ill and had to go to hospital or something, you wouldn’t be covered.”*

*“I work with very ill men, mostly... they’re all pretty ill because they can’t afford to [not work], they have to work through.”*

*“There should be something paid – [for example], you’ve been working with me three months, so I’ll pay you a couple of days sick. My view is that’s the only way to drag people out of working until the day they just fall over, which is effectively what they’re doing now.”*

*Self-employed construction worker*

## ADMINISTRATIVE AND SUPPORT ACTIVITIES

- 22% of workers are self-employed, a proportion which has seen a slight rise
- We estimate that 45% of self-employed workers aged 25 or over (equivalent to around 120,000) are paid below the National Living Wage, around the economy-wide average for self-employed workers.
- The majority of the low-paid self-employed are in a specific part of the sector – services to building and landscape

Administrative and support activities is a relatively large category of sector used in the official statistics to cover work in employment activities, travel agencies and tour operators, security and investigation services, services to building and landscape activities and office administrative tasks. Our data on London does not allow us to look in detail at these sub-sectors, but national level data from the FRS does. This shows that most of the low-paid self-employed – 85% in the “administrative and support activities” category are engaged in services to buildings and landscape activities, which is largely cleaning and gardening.

Around 22% of workers in the services to buildings and landscape activities sector are self-employed as their main job, a slight increase from 18% around the downturn in 2009.<sup>25</sup> The sector is particularly important for women, for whom it is an especially large sector among those in low-paid self-employment, particularly so in London.<sup>26</sup> The growth in self-employment in the sector has occurred alongside a broader growth in the sector over time.<sup>27</sup>

The domestic cleaning sector in particular has seen growth in platforms such as Handy and TaskRabbit that match self-employed domestic workers, including cleaners to customers. This could well accelerate the shift towards self-employment, by making it easier for those in self-employment to find customers and vice-versa.

Even before the introduction of the National Living Wage, the self-employed in these sectors were more likely to be in low pay compared to their employee counterparts, but low pay was still relatively widespread across both employment types, and higher than the UK economy-wide average. We estimate that 45% of the self-employed aged 25 or over in administrative and support activities are paid below the National Living Wage.

The high level of competitiveness was an issue that was raised in our interviews, with workers finding that they had difficulty sustaining higher hourly rates because of other workers who were willing to accept less. Whilst for employees, the national minimum wage and national living wage act as a floor, that is not the case for the self-employed.

*“I think there are people out there that are accepting really really low wages for doing the same job, they’re accepting extremely low hourly rates, and then obviously people are going to go for someone who’s cheaper.”*

*Self-employed cleaner*

There was also recognition in our interviews that work as an employee could provide more stability of income. However, there was a perception that such jobs would be harder to find, or would not necessarily allow the flexibility to allow workers to cope with other responsibilities such as caring.

*“It’s getting more and more difficult to find jobs, because a lot of people want to work for companies because it’s more consistent for them... but obviously I have a young child so for me it’s very difficult to go to a company and be told to go here and there”*

*Self-employed cleaner*

## TRANSPORT AND STORAGE

- 17% of workers are self-employed
- We estimate that 59% of self-employed workers aged 25 or over (142,000) are paid below the National Living Wage
- Even before the introduction of the National Living Wage, the self-employed were 3.5 times more likely to be in low pay compared to employees.

As with construction, transport and storage has seen a shift towards self-employment in the past decade, although the change has been more gradual, rising from 14% of workers to 17% of workers in the decade to 2015. The sector has higher than average rates of self-employment compared to the wider UK economy.

Taxi driving and chauffeuring is one of the top three job roles for the self-employed in the UK.<sup>28</sup> Around 79% of taxi-drivers and chauffeurs and coach drivers are self-employed. Around 20% of those in other passenger transport, such as coach and bus transport, are in self-employment.<sup>29</sup>

As with cleaning and gardening, there has been a growth in platforms in the transport sector, notably Uber, which enables self-employed drivers to directly find customers, and vice versa. However, self-employment dominated the taxi-driving sector long before Uber: for example, self-employed drivers made up a similar proportion of workers in the sector in 2009 (just under 84%). Alongside Uber, a range of other apps have also launched, allowing customers to book minicab services (for example Kabbee) and black cab drivers (for example Hailo). Technology therefore appears to be playing a role in better connecting workers and consumers, rather than driving a shift towards self-employment.

As with other areas of self-employment, there are undoubtedly some that find the transport sector attractive due to the flexibility in working that it provides, and see lower pay as a trade-off worth making. In some cases the move into self-employment may reflect the difficulties in managing other non-work commitments as an employee.

*"[I like] the flexibility of it. The money can vary, so there's no real set salary - like a bus driver gets his £500 per week - I don't earn that. [But I like] the flexibility of being able to talk to you now on a Monday afternoon."*

*Self-employed driver*

*"What I do is, because I needed something easy to take my baby around, I courier kids to and from swimming lessons, to and from school, it's the sort of business where it's simply transporting children to and from locations if their parents are unwell or if they're at work."*

*I was an English teacher at first, and then I had my son, and I felt like a fish out of water. I wanted to go back to work"*

*Self-employed driver*

However, it has also been argued that competition has driven firms to cut labour costs by switching to a strategy of engaging self-employed workers rather than employees, particularly in postal and courier services.<sup>30,31</sup> There have been concerns that some workers' working lives bear more resemblance to an employer-employee relationship, but without rights such as the national minimum wage, and cases in the delivery sector and taxi-driving sector have recently been taken to employment tribunals.<sup>32</sup>

*"I think it is changing... when you're doing the courier work I think it's become a lot more self-employed than employed. [Courier company] used to have employed drivers, and they slowly faded them out... made them self-employed. I think [as an] employee... obviously you've got a set rate, and they will give you a set amount of work and if you go over that amount of work they'd have to give you more money anyway... With the self-employed you don't have a leg to stand on... you're supposed to be your own boss, but I don't think you're treated that well, you're not valued as anything to be honest. At least with employed... they treat you a bit better."*

*Self-employed courier*

We estimate that around 59% of self-employed workers aged 25 or over in the transport sector are paid below the National Living Wage – the highest among the five sectors we look at, and well above the economy-wide average of 45%. Even before the National Living Wage, the self-employed in transport and storage were 3.5 times more likely to be in low pay compared to employees. This is likely to be partly due to the fact employees in transport and storage are not as concentrated in highly competitive sectors such as taxi-driving, and a significant number are in other parts of the sector such as rail and public bus services.

This suggests that tackling barriers to the self-employed becoming employees is likely to be particularly important in this sector, especially as employee jobs still account for a fairly substantial 83% of workers. But that also means that getting into higher pay may involve moving into different lines of work.

For workers who are self-employed, there can often be a lot of additional costs that reduce take-home pay. These costs can be volatile, and range from costs associated with being ill, to charges made by companies that engage the self-employed, to costs associated with equipment and vehicles.

*“You’re self-employed, you’ve got this contract, but if you have a day off they’d charge you £150... and you have to get the cover, it’s part of your business and you have to cover it, but it works in their favour all the time...”*

*“When you started, you pay into the franchise, like a deposit, mine was like £1300. You had a £1000 deposit, any damages on the van they would take it off when your contract finished, the £300 for uniform... If any damages they would take it off, if not you’d get the £1000 back.”*

*“[With my last courier company] the work was always there, but if anything went wrong with the van you’re paying... you have to lease another van while it gets fixed. I broke down... I said I can’t drive around with this,... phoned up, they said ‘if you don’t attempt to do*

*the rest of the deliveries we're going to charge you £150 for liability costs'... later that day it happened again, I was stuck at 7 o'clock at night with a broken down vehicle... they don't care."*

*Self-employed courier*

The rules and costs imposed on self-employed workers may, in some cases, be difficult for workers to fully grasp and plan for in advance. Individuals on low pay may be ill-equipped to bear the risks associated with these costs, and in some cases, these costs may not be fully transparent.

*"They had a booklet, all of their rules, I don't think anyone could have read through it... it's just strange... if you tell people you get charged for this and that... if you're 30 seconds early, you have to wait to deliver it in the time slot, or someone will call you and say you delivered that one early."*

*Self-employed courier*

## PROFESSIONAL, SCIENTIFIC AND TECHNICAL

- 27% of workers are self-employed
- We estimate that 31% self-employed workers aged 25 or over (140,000 workers) are paid below the National Living Wage, lower than the economy-wide average

According to our estimates, the professional, scientific and technical activities sector has a lower than average proportion of self-employed individuals paid below the National Living Wage compared to the economy-wide average (31% compared to 45%). However, it still accounts for a large proportion of the absolute number of low-paid self-employed individuals because the sector is relatively large, and a substantial proportion of the workforce is self-employed – 27%, compared to an average of around 15% across the economy as a whole. This means that around 140,000 workers in this sector are self-employed and paid below the National Living Wage.

More importantly, however, the low-paid self-employed are concentrated in a specific part of the sector – “other professional, scientific and technical”, which includes design (such as fashion design, jewellery and interior design), photography and translation services. Over 40% of the low-paid self-employed in this sector are in this “other” sub-category.

Within the “other professional, scientific and technical” sub-sector, over half are self-employed, a proportion that has slightly increased in recent years. Even before the introduction of the National Living Wage, the low pay rate among self-employed individuals within this specific sub-sector was higher than for the professional sector as a whole, at well over half. For employees within the same specific sub-sector, the low pay rate was less than 20%. Those in self-employment are at particularly high risk of low pay.

These areas of work can be highly competitive.

*“[My rate] has gone down. There is an agency, they use the excuse of the recession and everything, they have public sector clients and they’ve made cuts, they used to pay more, and it’s gone down. There’s so many people out there, qualified translators, [some people] will do it for less money, it’s a bit disloyal.”*

*Self-employed translator*

In some areas of work, getting signed to an agency can bring some benefits in terms of additional work and security, but does not necessarily result in the same stability as employee jobs.

*“Once you’re signed to an agency, it’s almost like you work for them, and you’ll have a very stable income and you’ll be getting jobs much more frequently...”*

*Interviewer: “Would you get some perks like a stable income or job security, sick pay?”*

*“No sick pay. But job security, yes. You’ll be offered a job based on who the client feels the job they’ve got fits which candidate under*

*their umbrella... I would love to be signed to an agency... it would be a lot more stress-free on my part, and I'd be able to concentrate much more on the artistic side of my work, as opposed to doing admin"*

*Self-employed photographer and film producer*

## WHOLESALE AND RETAIL

- 10% of workers are self-employed
- We estimate that 55% of self-employed workers aged 25 or over (189,000) are on low hourly pay, higher than the economy-wide average

Around 10% of those in wholesale and retail (including repair of motor vehicles) are self-employed, a proportion that has remained fairly steady in the past decade. 62% of the self-employed are in retail, and are fairly evenly split across different sub-sectors, but are more likely to be in specialist sales, mail-order or internet selling, and direct selling (such as sales agents) compared to employees.

We estimate that 55% of the self-employed aged 25 or over are paid below the National Living Wage, above the economy-wide average for self-employed workers. Even before the introduction of the National Living Wage, the self-employed in these sectors were more likely to be in low pay compared to their employee counterparts (57% compared to 39%), although the disadvantage conferred on individuals by being self-employed was slightly smaller than the average across the economy.

With few self-employed individuals in higher pay, and with pay relatively low across employees too, the limits for progression into higher pay may be limited in this sector. Some of the interviewees we spoke to had a strong awareness of this.

*"I don't earn that much so it's not like some great business, it's minor stuff... I don't think in the future, I don't think I'll start a business, I do hope for a career one day"*

*Ebay seller*

Unlike the other five big sectors for low-paid self-employment, there is little evidence of a widespread shift away from employee jobs. This may be because new business models that technology has enabled, such as internet selling, is often carried out by individuals seeking to supplement their income, as well as those who see it as their main occupation.<sup>33</sup>

Internet selling in particular is more likely to deliver some of the potential benefits of self-employment such as flexibility, compared to other sectors. The act of selling goods, rather than provision of a service is likely to be more conducive to allowing workers to choose their own hours.

*“I’m free, I can do what I want, I don’t have to wake up wondering about something at work, there’s more flexibility.”*

*Ebay seller*

*“I would find it difficult being in an office from 9 to 5. For me I wanted to be my own boss and I just wanted to do my own thing. I kind of like to do things on my own terms, so I think that’s what self-employment’s given me... I like the flexibility. I like just doing stuff when I decide to do stuff.”*

*Amazon seller*

However, those involved in offline selling are likely to have a very different experience of self-employment, with higher costs and associated risks.

*“you have to have insurance, some people go through market insurance... and then you’ve got your stock you have to pay for, and then you’ve got your tables you have to pay for, and then you’ve got a canopy. It can come to about 600 or 700, and I think people get misled really, they need all these things and they need to think about it, at the beginning.”*

*Market stall seller*

In summary, the nature of self-employment and patterns of low pay differ substantially across sector. A variety of different policies are likely to be required to tackle low pay. In some areas, especially where rates of low pay are low, there may be potential for the low-paid self-employed to be supported into higher pay. But other sectors are highly competitive, with fewer prospects for business growth. In some sectors, the differing approach of tax and regulation appears to be driving changes in business models, potentially heightening the shift towards self-employment, whereas other sectors are bucking the trend.

## CHAPTER 3: WHAT HELPS THE SELF-EMPLOYED ESCAPE INTO HIGHER PAY?

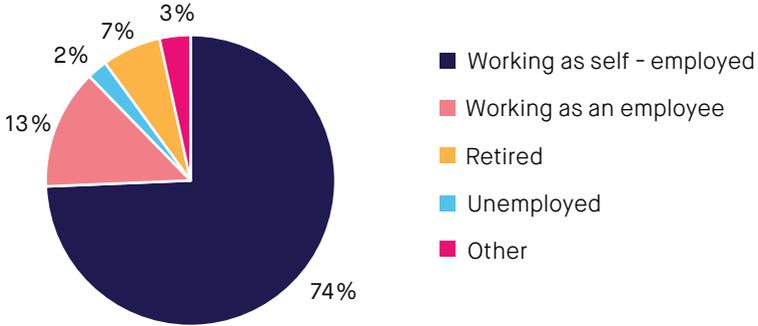
In this chapter, we present analysis of data that tracks the low-paid self-employed over time to look at the probability of escaping into higher pay, and the factors associated with doing so. Our data is from the UKHLS (Understanding Society). Further details on our data and methodology are included in the Annex.

### THE DYNAMICS OF LOW-PAID SELF-EMPLOYMENT

Our analysis tracks the low-paid self-employed over time. We look primarily at those who are in low pay as measured on a monthly basis, but later on in the chapter we also look at the effect of number of hours worked. The reason for doing this is that the self-employed could improve their take-home pay in two ways, by increasing the amount they earn per hour or by working additional hours. Changes in monthly pay capture both of these factors. We also report analysis examining low pay as measured on an hourly basis where the results differ substantially from the monthly-level analysis.

We find that, on average, one year later, 87% of the low-paid self-employed are still in employment, made up of 74% who stay in self-employment and 13% who become employees. 2% become unemployed. These figures are shown in Figure 7. Figures based on hourly pay deliver a very similar result.

**Figure 7: What happens to the low-paid self-employed one year later? (low pay measured on a monthly basis)**



Source: SMF analysis of Understanding Society, Waves 1-5

Of those that stay in work, and are low-paid on a monthly basis, around a quarter escaped from low monthly pay one year later. Looked at on an hourly basis, a third escaped low pay one year later. This suggests that hourly rates fluctuate more than monthly earnings.

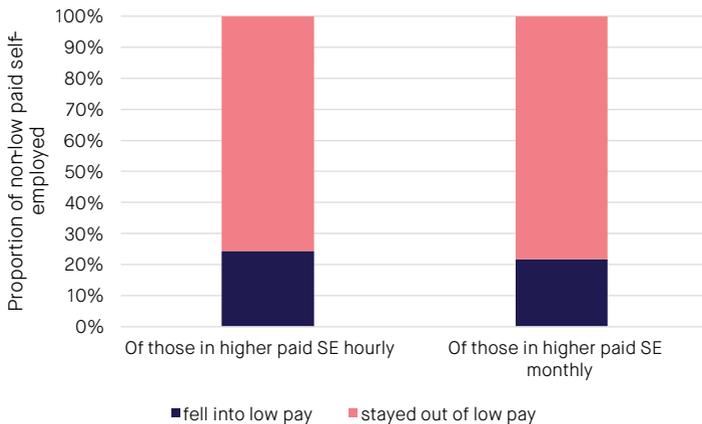
**Figure 8: Likelihood of escaping from low-paid self-employment one year later**



Source: SMF analysis of Understanding Society, Waves 1-5. Those in self-employment, who are still in work one year later

Instead, if we look at the self-employed who start off above our low pay threshold, we find that around 22% fall into low pay (as measured on a monthly basis) and 24% fall into low pay (as measured on an hourly basis) one year later. Taking the pattern for low-paid self-employed and non-low paid self-employed together, this suggests that total self-employment earnings are more stable from year-to-year than hourly rates. The self-employed appear to adjust the number of hours they work to mitigate swings in the amount they are able to earn per hour. We explore this in more detail later in the chapter when we look at factors associated with escaping low pay.

**Figure 9: Likelihood of falling into low pay among the self-employed one year later**



Source: SMF analysis of *Understanding Society*, Waves 1-5. Those in self-employment, who are still in work one year later

We also explored outcomes over the course of three years. Our sample sizes are smaller for this part of the analysis and so findings are tentative. But they do show a similar pattern, whereby monthly earnings are more stable than hourly earnings.

## THE DEMOGRAPHICS OF THOSE IN LOW PAY

Our data also allows us to look at whether those who escape from low-paid self-employment over the course of a year are particularly different in terms of their demographic characteristics. We look at two main groups:

1. Self-employed in low pay in both years (“low pay in both years”)
2. Self-employed who start in low pay, and escape one year later (“escaped from low pay”)

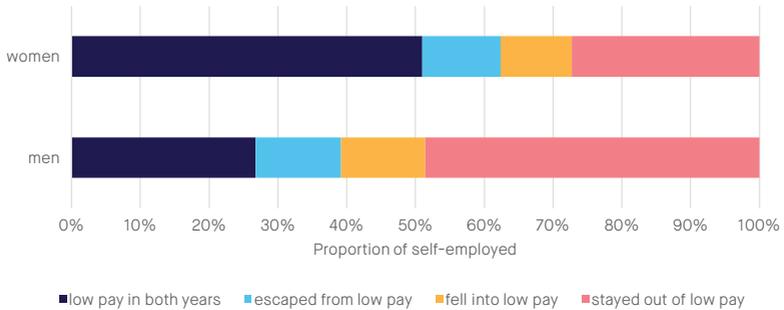
For comparison, in some parts of the analysis, we also look at the following two groups:

3. Self-employed who are initially not in low pay, but fall into low pay one year later (“fell into low pay”)
4. Self-employed who stay out of low pay in both years (“stayed out of low pay”)

As with previous chapters, our analysis focuses on individuals for whom self-employment is the main job that they do.

Women make up just under a third of our self-employed sample, in line with other estimates.<sup>34</sup> However, our analysis shows that they make up a disproportionate number of individuals who are in low-paid self-employed on a sustained basis for more than one year. Around half of self-employed women remain in low pay across two years, compared to just over a quarter of self-employed men.

**Figure 10: Time spent in low pay, by gender (low pay measured on a monthly basis; of those in self-employment)**



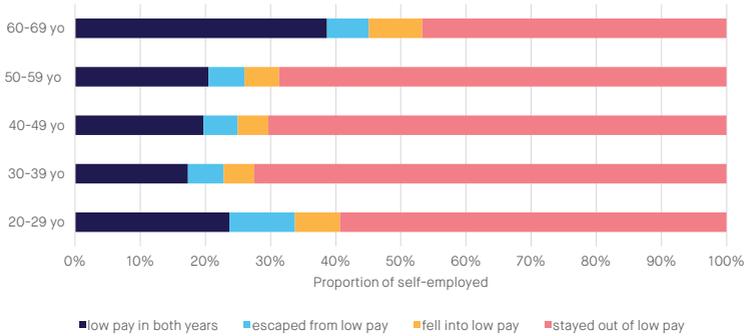
Source: SMF analysis of *Understanding Society, Waves 1-5*. Those in self-employment, who are still in work one year later

This is partly due to women working shorter hours than men. This pattern is evident across women in the workforce more generally: women are still more likely to be in part-time work than men, for example, because they are still more likely to be looking after family members.<sup>35</sup> These responsibilities can restrict the number of hours they are able or want to do, thereby limiting their monthly income. However, it is notable that even when measured on an hourly basis, self-employed women are still more likely to be in sustained low paid self-employment, with just over a third being in low hourly pay two years running, compared to around a quarter of self-employed men.

The self-employed aged 60 or over are much more likely to be in sustained low monthly pay, however, the effect mostly disappears when looking at hourly pay, suggesting that for this group, a choice has been taken to work shorter hours, perhaps as part of a phased retirement plan.

The young self-employed (20- 29 year-olds) are also more likely to be in sustained low pay. They are also more likely to experience change, falling into or escaping from low pay compared to their older counterparts. Our analysis of hours worked shows that changes in hours are part of the driver, but do not explain all the volatility.

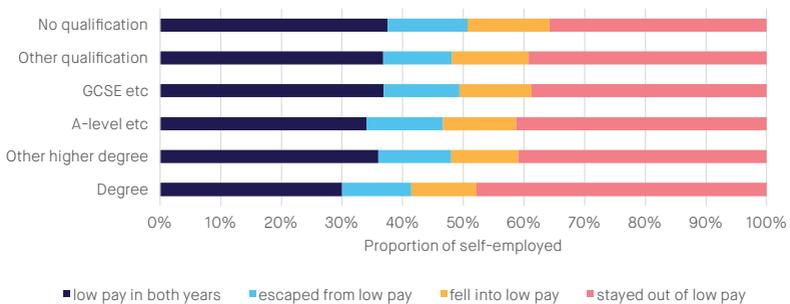
**Figure 11: Time spent in low pay, by age group (low pay measured on a monthly basis; of those in self-employment)**



Source: SMF analysis of Understanding Society, Waves 1-5. Those in self-employment, who are still in work one year later

As might be expected, self-employed individuals with higher qualifications – in particular degree-level qualifications - are more likely to stay out of low pay, although, for monthly pay, the difference between those with the highest and those with no qualifications is surprisingly small. The relationship is starker when we examine hourly pay. Whereas 48% of self-employed degree holders stay out of low pay for two years running when pay is looked at on a monthly basis, this rises to 54% when we look at pay on an hourly basis.

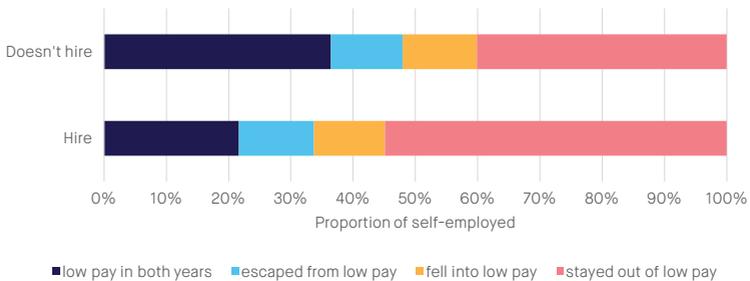
**Figure 12: Time spent in low pay, by age qualification level (low pay measured on a monthly basis; of those in self-employment)**



Source: SMF analysis of Understanding Society, Waves 1-5. Those in self-employment, who are still in work one year later

Those who hire employees are less likely to be in sustained low pay. This is as expected: it is unlikely that those who are earning little will be able to hire employees. Whether hiring employees itself helps to escape low pay is difficult to draw conclusions on, as the number of self-employed who switch from not hiring to hiring or vice-versa is relatively small in our sample.

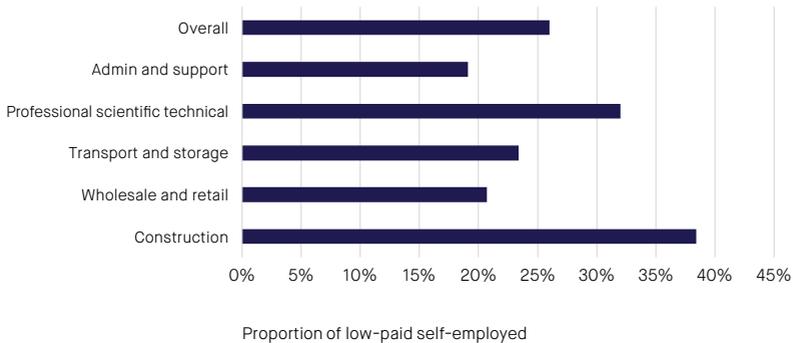
**Figure 13: Time spent in low pay, self-employed with employees vs self-employed without employees (low pay measured on a monthly basis; of those in self-employment)**



Source: SMF analysis of *Understanding Society*, Waves 1-5. Those in self-employment, who are still in work one year later

Finally, the likelihood of sustained or temporary low pay differs substantially by sector. Those in administrative and support; transport and storage; and wholesale and retail are much less likely to escape low pay than low-paid self-employed individuals across the whole economy. The opposite is true for those in professional, scientific and technical and construction. This partly reflects the fact that there is a wider variation in wages in the latter two sectors (as shown in Chapter 2), and therefore more opportunities to progress.

**Figure 14: Rates of escape, by sector, among those who are low-paid self-employed, one year later (low pay measured on a monthly basis)**



*Source: SMF analysis of Understanding Society, Waves 1-5. Those in self-employment, who are still in work one year later*

## WHAT DO PEOPLE DO TO ESCAPE LOW-PAID SELF-EMPLOYMENT?

There are broadly three ways in which low-paid self-employed individuals might increase their earnings:

- Increase the number of hours they do
- Increase the amount they are able to earn per hour, whilst staying in the same sector
- Move into a different line of work whether as an employee, or in a higher paying sector.

We explore these different strategies below, drawing on our data analysis and insights from our in-depth interviews.

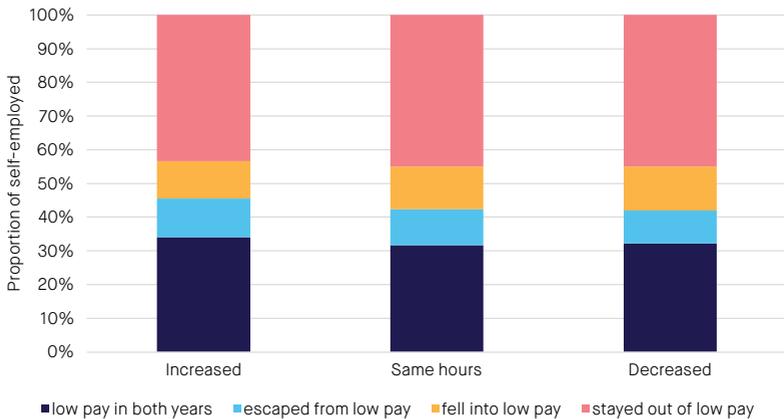
### 1. Increasing hours

One strategy for the low-paid self-employed to boost their take-home pay is to increase the number of hours that they work. This could be by winning more work from existing customers, or finding more customers. The latter might be particularly valuable if it allows workers to earn a steadier income,

by leaving them less exposed to large shifts in demand from a single customer.

However, our data tracking the low-paid self-employed over time shows that, in fact, there is very little relationship between the probabilities of moving in and out of low pay and changes in the number of hours worked. Those who increased the number of hours they worked are no more likely to have escaped low pay than those who worked the same number of hours or reduced the number of hours they worked. The same is true if we look at the likelihood of falling into low pay, staying in low pay or staying out of low pay altogether.

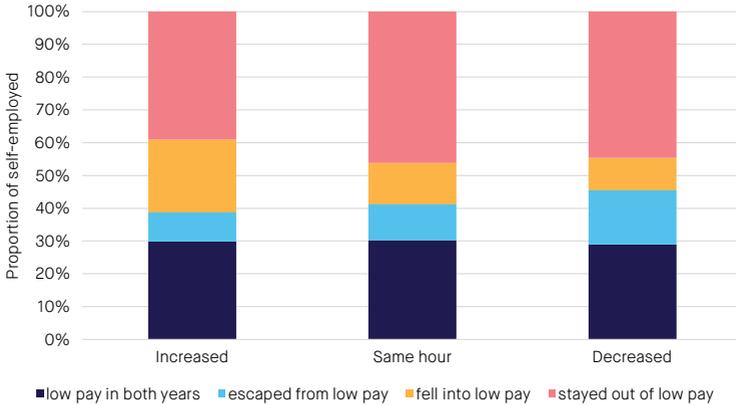
**Figure 15: Link between movement in and out of low pay over a year and changes in hours worked (low pay measured on a monthly basis)**



Source: SMF analysis of *Understanding Society, Waves 1-5*. Those in self-employment, who are still in work one year later

But a different pattern emerges if we look at low pay as measured on an hourly basis. Those who increased the number of hours they worked were more likely to have fallen into low hourly pay. Conversely, those who had reduced the number of hours they worked were more likely to have escaped from low pay.

**Figure 16: Link between movement in and out of low pay over a year and changes in hours worked (low pay measured on an hourly basis)**



Source: SMF analysis of Understanding Society, Waves 1-5. Those in self-employment, who are still in work one year later

This suggests that the self-employed tend to work the number of hours that they need to secure a stable level of income, rather than taking a strategic decision to increase the number of hours worked to boost their take-home pay. If they experience a fall in their earning power, they work harder, and vice-versa.

Part of the reason for this is likely to be the fact that many are already working long hours. Our analysis of the FRS finds that the low-paid self-employed (as measured on a monthly basis) already work relatively long hours. 60% work 30 hours or more a week, and 40% work 40 hours or more a week. These are longer hours than low-paid employees, only 35% of whom work 30 hours a week or more, and only 10% work 40 hours or more a week. The low-paid self-employed tend to flex their hours up and down depending on the level of financial pressure they are under. But the fact that they are already working long hours means that increasing hours is not a sustainable route to higher earnings for many.

Among those who do work shorter hours, there are likely to be other barriers to increasing hours. This was reflected in our interviews with low-paid

self-employed individuals. Barriers can include difficulties in finding customers, a problem that the move towards platforms may be able to help solve. Others were held back by lack of skills or transport, for example, one of our interviewees was previously restricted due to the fact that she did not drive, and was now taking lessons.

*“I find it hard putting myself out there. [Other translators] devote a lot of time to going to events, to mixing with people, and I don’t have the time to do that.”*

*Self-employed translator*

*“I’ve got a driving lesson today, I’m hoping to be driving in two months. There’s been places I’ve been asked to go, and just because my husband’s not around, and the weight of the jewellery, some things I have to turn down.”*

*Self-employed jewellery designer*

Others may face constraints due to other commitments. Childcare, which other studies on employment more generally have found to be a barrier,<sup>36</sup> was raised in other interviews.

*“My eldest daughter is almost 16, so she’s doing her GCSEs at the moment. [In a few years] my youngest daughter would be at an age, going to college or doing A levels... So [then I could be] working more hours, taking on more jobs.”*

*Self-employed cleaner*

## 2. Increase the amount they are able to earn per job

Another strategy to move out of low pay is to increase the amount charged for the same work. This might be through providing a higher quality service, or simply negotiating higher pay with customers.

Our data does not allow us to directly observe whether the self-employed individuals in our dataset employed a strategy of increasing the amounts they charge, so it is difficult to conclude on how successful such strategies are, and whether they are linked to escaping low pay. However, there was

much discussion about what might be done to increase the amount earned per hour among our interviewees.

Getting additional qualifications was a strategy that was raised as a possibility for some of the low-paid self-employed that we interviewed. This was particularly the case for the construction sector, where there are recognised qualifications that engagers may look for in deciding which workers to sub-contract to. For example, the Construction Skills Certification Scheme (CSCS) holds a database of individuals who have recognised qualifications and issue CSCS cards to workers who have them. This can provide an incentive for workers to obtain training so that they can access a wider range of contracts, potentially from larger businesses who may be more likely to specify this as a requirement.

*“[Large and medium-sized businesses] might only employ people who’ve done the CSCS scheme so they’ve got some training... that kind of encourages personal improvement.”*

*“[I’m taking training in] inspection and testing... It’s a massive step, in terms of pay and experience”*

*Self-employed electrician*

In some cases, where there are no recognised qualifications in a sector, being able to raise prices is likely to depend on having developed a reputation for high quality.

*“If you’re good at what you do you can afford to ask for a better rate, and better conditions.”*

*[On a family member’s work, also as a self-employed cleaner], “they’ve been with the same family for a lot of years, the family’s nice, the family likes them, they’re reliable, they’re hardworking, they’re honest, and it’s very difficult to find that nowadays. So they’re willing to keep them on, and they’re willing to pay them [a reasonable rate]. They tell them every other year, the cost of living has gone up, we need to raise our rates.”*

*Self-employed cleaner*

However, we also came across workers who found it more difficult to charge their existing customers more, even if price rises only reflected increases in the cost of living.

*“The cost of living increases year by year... I haven’t made a price increase... I don’t feel scared but I feel a bit nervous about doing it. Because I’m just me, and I don’t have the facade of a company to hide behind.”*

*Self-employed cleaner*

The same interviewee reflected on a strategy that she was planning to negotiate higher pay, which was to refer to changes in the Living Wage or National Living Wage. The latter is only applicable to employees. Nevertheless, such events were seen as opportunities to prompt a discussion about pay.

*“I’m thinking I’d probably [try to increase my prices] at the end of the financial year, because I know that the London Living Wage and the Minimum Wage is being increased... I kind of think that’s the best time of year to do it, because it’s a time in people’s mind, it is a new financial year, so if any rises or if inflation is going to come into effect it is that time of year.”*

*Self-employed cleaner*

### 3. Moving into a different line of work

Many of the areas of work with high numbers of self-employed individuals are highly competitive sectors. This means that for many workers, it may well be very difficult to find more work, or find ways to increase pay. For such workers, strategies to move into higher pay include moving into sectors or areas of work where pay is higher, or finding a higher-paying job as an employee, or both. In some cases, mixing employment and self-employment may be an option, although this is relatively uncommon according to data in the Understanding Society dataset, with only 2% of individuals who are self-employed as their main job saying they have a second job as an employee.

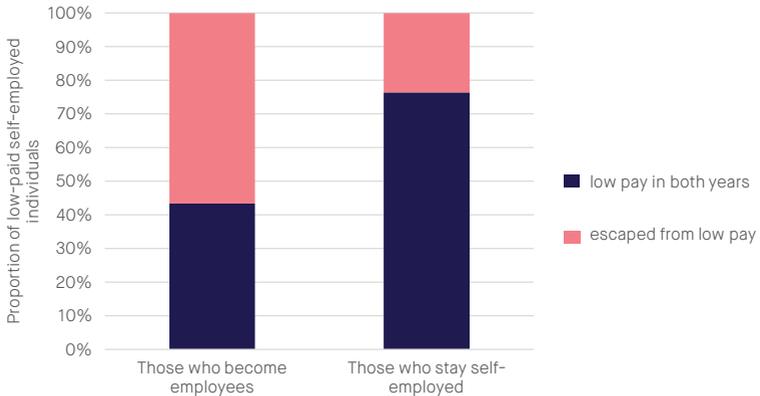
In our dataset, industries are broken down into 70 categories.<sup>37</sup> Very few self-employed individuals switch sector from one year to the next, around 6%, which makes it difficult to explore whether moving sector is linked to moving into, out of, or staying in low pay. The data that we do have does not indicate any significant relationship between the two. However, in a number of our interviews, there were certainly ambitions to move into different lines of work. In some cases, this meant using the same skill set, but in a more lucrative area of work.

*“I’m setting up a language club to teach Spanish to children – it’s self-employed as well. I’ve been devoting my time marketing this... That’s looking very promising and very exciting... We’ve got 33 students already... It will be better paid [than translation]. The class itself is only half an hour. Obviously there’s more work, you have to prepare the classes. But once you’ve prepared that you recycle it, and it shouldn’t be too time consuming, and we’ll be charging the same money every time.”*

*Self-employed translator*

As set out earlier, around 13% of low-paid self-employed go into employee jobs one year later. This equates to 15% of those who stay in work. As shown in Figure 17, these self-employed individuals who became employees over the course of a year were much less likely to be in low pay in both years. Looking at the low-paid self-employed specifically, around 57% of those who became employees escaped from low pay, compared to only 24% of those who stayed self-employed. Those who became employees over the course of the year were twice as likely to escape low pay as those who stayed self-employed.

**Figure 17: Link between becoming an employee and probability of escaping low pay over the course of a year (low pay measured on a monthly basis; of those in low-paid self-employment in the initial period)**



Source: SMF analysis of *Understanding Society, Waves 1-5*. Those in self-employment, who are still in work one year later

However, it is not necessarily easy to make the transition into an employee job. As explored in the previous chapter, in some sectors, self-employment rates are very high, and employee jobs are much less common. A BIS survey of self-employed individuals found that around half of respondents said that being self-employed is the normal way of working for the job that they were in.<sup>38</sup> In fact, this was the most common reason for being in self-employment given in the survey, ahead of seeing a specific gap in the market or a business opportunity. Around 15% said that they could not get a job as an employee doing the type of work they wanted in their local area. This means that for some, getting an employee job may involve having to change the line of work that they are in, entailing potential barriers in terms of building up the requisite skills and experience.

This was reflected in the stories of some of our interviewees.

*"I applied for a school job. As caretaker. I'm good at DIY, things like that, so I was looking to go into that kind of work. The money's not that bad to be honest... You get the holidays off, it's paid holiday, which is good."*

*Self-employed driver*

*"I would really like to get an into an employee position... I have looked at things that you could train for, which have a value...Cause I can't earn any more painting and decorating. I just can't."*

*Self-employed painter & decorator*

Setting these difficulties aside, after a long period in self-employment, individuals may find it difficult to successfully apply for jobs as employees, and adapt to a new way of working.

*"I'd find it really daunting because I've been out of formal employment for 8 years, so it's like 'oh my god, having to do an interview', and even writing my CV because my CV's totally different now to what it was before. I would find it really daunting to have to start again."*

*Self-employed translator*

Others that we spoke to were constrained by other commitments, and thought that taking a job as an employee would not provide them with the flexibility that they needed.

*"I have a young child so for me it's very difficult to go to a company and be told to go here and there."*

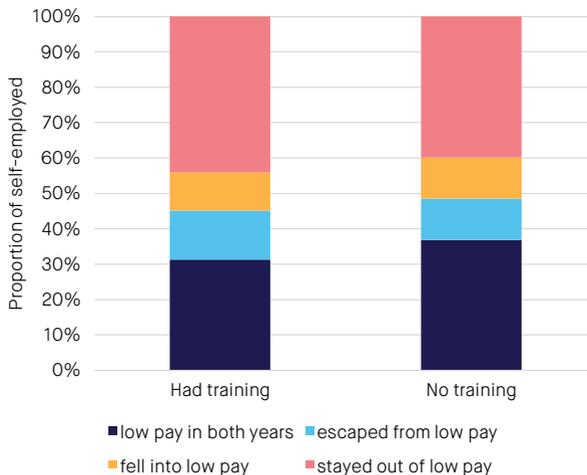
*Self-employed cleaner*

## The role of training

Across all three strategies set out above, it is clear that lack of skills and qualifications can be a barrier to moving into a higher pay. In fact, other research shows that for some, self-employment may well be a response to lack of options to work as an employee, often due to lack of skills.<sup>39</sup> Training could help the low-paid self-employed find more work, increase the amount they are able to charge for their service, or move into a different, more lucrative area of work.

We are able to look at training in our dataset. When we look at those who have had training in the past year<sup>40</sup> and those who have not, we find that those who had training are less likely to have been in low pay in both years, and more likely to have stayed out of low pay.

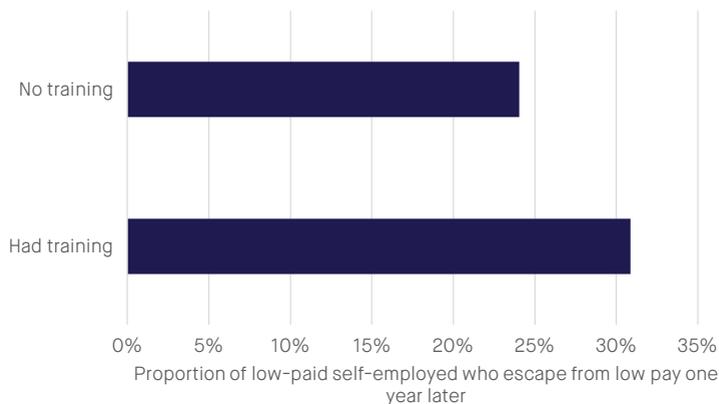
**Figure 18: Link between training and movement in and out of monthly pay over the course of a year (low pay measured on a monthly basis)**



Source: SMF analysis of Understanding Society, Waves 1-5. Those in self-employment, who are still in work one year later

If we look specifically at those who start off in low-paid self-employment, we find that just over 30% of those who have training escape from low pay one year later, compared to just under a quarter of those who had no training. Training may therefore increase the probability of escaping from low pay.

**Figure 19: Rates of escape from low pay (low pay measured on a monthly basis; of those in low-paid self-employment in the initial period)**



*Source: SMF analysis of Understanding Society, Waves 1-5. Those in self-employment, who are still in work one year later*

However, previous research has found that the self-employed are less likely to have access to training compared to employees.<sup>41</sup> For a self-employed worker, organising and financing training is likely to be more difficult than for an employee. As well as upfront training costs of courses, the self-employed also need to take into account the fact that training will mean that they have to take time off work, forgoing potential earnings. They are less likely to enjoy the potential economies of scale that a large employer might have in procuring training for its employees, and will not enjoy Government schemes and subsidies that an employer would. In some cases, some types of training are simply not open to them at all. Any help with training tends to be focussed on those who are unemployed or an employee, not self-employed.

*“At one point I got support from government, this was right at the beginning, I was unemployed at the time, it was kind of like a charity, I told them what trade I was going to get into, they paid for my course, they paid for accessories as well, textbooks, travel, it was helpful, it was a boost”*

*Self-employed electrician*

*“The pass rate [for the exams I am taking] is about 60%, you’ve got a written exam, a multiple choice online exam... I’ve passed one of them, I failed 2 of them, I need to redo them...It’s quite costly, it’s at least £60 every retake ... Because I’m working I don’t really get the time, in the evenings I might get an hour, but I need more time in my day to get everything out of the way.”*

*Self-employed electrician*

*“I am thinking very hard about the capital outlay, saving enough money so I can do the course. I have done quite a lot of research on which are well recognized and the ones that are just scams. I’ll work my way through that, should take me about a year to get myself qualified and then get on with somebody like British Gas.”*

*Self-employed painter & decorator*

## CHAPTER 4: WHAT SHOULD BE DONE?

There is a strong case for tackling low pay among the self-employed. Their numbers are growing over time, and to date, the problem of low pay in self-employment has attracted little policy attention. In this chapter we set out what can be done.

### WHERE DOES ACTION ON LOW-PAID SELF-EMPLOYMENT NEED TO BE TAKEN?

It is becoming ever more important for Government to take self-employment into account in designing strategies and policies to tackle low pay. This is important for central Government and independent central bodies such as the Low Pay Commission, but also local Government, as local areas begin to take on more responsibilities for local growth, jobs and skills.

We need to ensure that support organisations cater for the varied nature of self-employment, and that support is in place for those in persistent low-paid self-employment as well as those who are setting up businesses with growth potential. There is also a role to play for institutions, such as unions, that have traditionally focussed on employees. In undertaking this research, we have come across examples of unions that are now doing more to work with the self-employed, supporting them and representing them, to help them improve their working lives.

Platforms that help connect the self-employed with customers are often seen as a negative development, encouraging a shift towards more low-paid, insecure work. But they bring advantages for those in self-employment too, by reducing advertising costs and helping them to expand their customer base. What's more, they also bring many self-employed individuals together. This aggregation presents opportunities for policymakers. A significant barrier to helping and supporting the self-employed is that they can be difficult to identify and target. As we explore below, platforms can help overcome this.

However, whilst platforms can encourage greater competition, enabling the self-employed to compete with larger established companies for business,

they can themselves have substantial market power. Successful platforms have strong network effects, meaning that the more users a platform has, the more attractive it becomes to current and potential users.<sup>42</sup> This could potentially put successful platforms in a strong bargaining position compared to its users. This suggests that there is a case for looking at how the negotiation position and voice of the self-employed can be bolstered.

In the rest of this chapter, we look at what can be done to reduce low-paid self-employment, setting out the respective roles of central Government, local Government, independent bodies and other organisations. We look at three main options for boosting the incomes of the low-paid self-employed:

1. Addressing the tax & regulation gap between employee and self-employed
2. Giving the self-employed a stronger voice
3. Supporting the self-employed into higher pay

### ADDRESSING THE TAX & REGULATION GAP BETWEEN EMPLOYEE AND SELF-EMPLOYED

In a well-functioning, competitive market, regulation to protect workers would not be needed. However, it is widely recognised that, in practice, in the absence of regulation, there would be insufficient protection of workers' rights. Similar arguments extend to pay.<sup>43</sup> However, most employment regulation is largely focussed on employees.

An important route to tackling low pay among employees has been through setting a floor – the National Minimum Wage, and more recently, the National Living Wage. When the National Minimum Wage was introduced, it was largely designed to benefit the very lowest paid. At the time, around 3.1% of employees aged 25 and over were in National Minimum Wage jobs. However, the National Living Wage goes much further. It is expected that 7.6% of employees aged 25 or over will be in National Living Wage jobs initially, rising to 13.9% in 2020.<sup>44</sup> This forces the market to shift towards higher paid jobs. The shift also bring the potential risk of greater unemployment, although there is little sign of this materialising so far.

There is a case for boosting pay among the self-employed too. However, it would be difficult to take a similar approach to that taken for employees, and set a pay floor. Firstly, it would make little sense to place the burden on the self-employed to pay themselves a minimum amount. Regulation would therefore need to be enforced on the clients and customers of the self-employed. This is possible, but would be harder and costlier to enforce than is the case for employees. It would be easier for the 10% of the self-employed work exclusively for a single client, but the majority of self-employed individuals work for multiple customers.<sup>45</sup> Secondly, it would require information on the number of hours worked and costs of running a business, so that a reasonable hourly pay rate could be set. However, for many self-employed individuals, this would require a level of supervision and knowledge from customers which would change the entire nature of a self-employment relationship to one which looked much more like an employer-employee relationship.

Effectively, to regulate the self-employed in an equivalent way requires shifting them into an employer-employee relationship. Is there a case for doing this? There are a number of commercial factors that affect whether a business would choose a contractor or employee model. These include the potential gains from economies of scale, the relative importance of developing a long-term relationship with the worker (which in turn depends on how easy it is to observe worker quality and output) and the variability in the flow of demand faced by the business, that might require it to frequently change the amount it produces. From a worker's perspective, too, there are a number of factors relevant to the decision – both financial and personal – including how comfortable the individual is with taking on the risk of variable income, and personal working preferences over control, autonomy and flexibility.

Forcing businesses and individuals to shift to employer-employee relationships risks distorting these decisions, reducing business efficiency, and taking away valuable choices for individuals in how they choose to work. But arguably, the choice is already distorted in favour of a firm-contractor and self-employed-customer relationships due to inconsistencies in the way policymakers treat employment statuses.

Those who are self-employed for tax purposes pay less in tax as set out in Box 2, and, more importantly, there is no equivalent of employers' NICs for the self-employed. The Office of Tax Simplification (OTS) has said that the tax differential between the two employment statuses is significant, and results in "pressures on the employment status boundary from those who wish to gain an advantage or manage the risk of getting it wrong".<sup>46</sup> Further, the employer-employee model entails more regulatory costs due to the cost of employee rights, including minimum wages, as well as other costs such as pensions auto-enrolment and the apprenticeship levy.

Evidence from other countries shows that when employer taxes are higher, self-employment rates tend to be higher too. Where countries have closer alignment between tax and national insurance (or equivalents), rates of self-employment tend to be lower. Dealing with this issue is complicated, but a first step would be to revisit employers' NICs. Eliminating employers' NICs, and increasing individual (employee and self-employed) NICs by an offsetting amount is one option. In theory, whilst the legal burden of taxation would be shifted between employer and employee, wages should adjust to counter this effect, as employer NICs is reflected in lower wages.<sup>47</sup> However, there are likely to be some effects on employees, at least in the short-term.

More difficult is the fact that aligning self-employment and employee taxation is likely to create another fault line – between the taxation of the self-employed and those who set up a limited company to provide services to allow income to be taken as dividends (not subject to NICs) rather than earnings.<sup>48</sup> Government would therefore need to better align rates across all types of earnings. This is not inconceivable – Canada has a policy of avoiding tax differentials between employees, self-employed and companies, and has fewer difficulties with employment status definitions as a result.<sup>49</sup> But the issues clearly go beyond self-employment alone and therefore we do not make any recommendations on specific changes in taxation. However, we do believe that Government should examine how it can better harmonise taxes and avoid future changes in tax rates that widen differentials between employment statuses.

**Recommendation:** Government should examine how it can minimise tax gaps between employees and self-employed, and avoid any future changes to the tax system that widen the tax differentials between employment statuses.

### Box 2: National Insurance and self-employment

Employees pay Class 1 National Insurance Contributions (NICs), currently amounting to 12% on pay between £155 and £827 a week; and 2% on pay over £827 a week.<sup>50</sup> Their employers also pay Class 1 NICs, currently 13.8% on pay of £156 or more a week.<sup>51</sup>

Self-employed individuals pay Class 2 NICs, currently £2.80 a week, and Class 4 NICs, currently 9% on profits between £8,060 and £43,000 a year and 2% on profits over £43,000.<sup>52</sup>

The Government is planning to abolish Class 2 NICs from April 2018.<sup>53</sup> It is planning to reform Class 4 NICs to link contributions to later benefit entitlement.<sup>54</sup>

There are other areas where Government can act to take the pressure off the boundary between employee and self-employed. The problem around the tax and regulatory differential is compounded by a general lack of clarity around employment statuses. There is no statutory definition of employment status, although there is a body of case law.<sup>55</sup> More confusingly, it is possible for an individual to be an employee for employment rights purposes, but self-employed for tax purposes.<sup>56</sup> Evidence suggests that the current situation is resulting in a lack of clarity and certainty, for both businesses and workers.<sup>57</sup> Estimates of the extent of false self-employment, especially in some sectors, suggests that the current approach is not working. Citizens Advice has estimated that around 460,000 individuals may be “bogusly self-employed” in the UK.<sup>58</sup> As set out in Chapter 2, this is a particular problem in the construction sector, where previous estimates have put the number of false self-employed at around 300,000.

In 2015, the OTS recommended that Government explore setting out a statutory employment status test. In response, Government said that it will

set up a Cross-Government Working Group for Employment Status, but said that it would be premature to establish a separate employment status review while two existing self-employment reviews were being undertaken.<sup>59</sup> Since then, the Deane review has been published, and concluded that “the lack of a legal definition of self-employment is causing an issue”. More recently, the lack of clarity has been exposed in the case of new potential changes to Deliverer’s self-employed couriers. In response, Government emphasised that “employers cannot simply opt out of the NLW by defining their staff as self-employed”.<sup>60</sup> But in the absence of further clear guidance or legislation, it is likely that such cases will occur again and again.

**Recommendation:** We recommend that The Department for Business, Energy and Industrial Strategy (BEIS) establish an employment status review with a view to setting a statutory employment status test for both tax and employment regulation purposes.

Whilst there is little evidence on whether the National Minimum Wage has resulted in increased self-employment, the National Living Wage is quite different in nature. It is much more ambitious, and the LPC does not need to minimise adverse employment effects in recommending changes. We do not yet know how firms will react, but moving towards a firm-contractor model may well become more attractive. In some cases, this may well constitute attempting to reclassify employees as self-employed whilst maintaining what appears in other respects to be an employer-employee relationship. To mitigate the potential for increases in “false self-employment”, Government should do more to raise awareness among workers as to their rights, the potential for employment statuses to be challenged, and provide an easy way for them to contact minimum wage compliance officers at HMRC.

**Recommendation:** HMRC should set up an accessible portal to inform workers about their rights and allow them to confidentially submit concerns about false self-employment. HMRC should set aside resources to investigate complaints related to false self-employment and the National Living Wage, and share anonymised data with the Low Pay Commission.

However, there are issues beyond “false” self-employment. The divide between employee and self-employed places pressure on business models, with those that move to a genuine firm-contractor business model potentially able to be more competitive than others. This places limitations on how far Government can go in reducing low pay among employees. Whilst rolling back existing minimum wage regulation could worsen low pay among employees, there is a risk that if it goes beyond a certain level, it could become counter-productive in pushing more businesses to a contractor model. Whilst low pay rates among employees would continue to go down, low pay rates among workers as a whole could stay the same or go up. We think that this effect needs to be thoroughly investigated as the National Living Wage rises.

**Recommendation:** the Low Pay Commission’s remit should be amended to ensure that it is explicitly required to take into account the effects on self-employment in making recommendations on future National Living Wage rate rises. The LPC should continue monitoring trends in the pay of the self-employed over time, as some impacts may be long-term in nature.

To ensure that the LPC is able to do this, better data will be needed on the earnings of the self-employed. There are few sources of information on pay of the self-employed, and much of this is not very timely. The LPC may need to work with HMRC to make better use of administrative data on pay. However, such data has drawbacks, in that it does not capture the number of hours worked, only total pay. Further, pay is more likely to be under-reported in tax returns. Another potential data source comes from platforms used by the self-employed to find customers. Exploring the data such platforms collect may help inform research on pay. However, such analysis will necessarily only provide a partial view of the state of earnings among the self-employed.

The best survey data source, the Family Resources Survey, is usually only available with a lag of around a year. By comparison, data on earnings for employees is available from several sources (for example, the Annual Survey of Hours and Earnings and the Monthly Wages and Salaries) and reliable statistics are available with a lag of only a few months.

**Recommendation:** the ONS should explore how more timely data on self-employment and pay can be collected.

## GIVING THE SELF-EMPLOYED A STRONGER VOICE

Regulation of wages for employees is a response to lack of competitiveness in the labour market which increases the relative power of employers compared to employees. As explored above, explicit pay regulation is difficult to implement and likely to be undesirable for the self-employed. However, there are other ways in which the self-employed can be given a stronger voice to help them move into higher pay.

One approach involves campaigns such as the Living Wage campaign, run by the Living Wage Foundation, which has encouraged employers paying it to become accredited. The Foundation has been relatively successful in raising awareness of low pay and changes in the cost of living. There is also evidence that many businesses have raised wages in order to become accredited (rather than gaining accreditation for already paying above the Living Wage).<sup>61,62</sup> Under the current accreditation scheme, if the self-employed work on a firm's premises for more than two hours for eight consecutive weeks they must be paid the Living Wage to be accredited, with a similar policy applying for those without a fixed place of work, but who are part of the core workforce, such as delivery or courier drivers.<sup>63</sup>

Whilst this is welcome, we think that the Foundation should go further, for example by specifically highlighting that their calculations reflect rises in the costs of living that apply equally to the self-employed as well as to employees, when new rates are released. This could potentially provide a route in for the self-employed to prompt a discussion with customers about raising rates, which could be difficult to do otherwise.

The Foundation could also explore whether it could work with platforms that are used by the self-employed to find customers, particularly in situations where an hourly rate is already commonly advertised, such as in cleaning. Possible options could include adding a visual prompt on apps or websites setting out whether the advertised rate would result in the worker effectively

being paid below the living wage or not, and adding an option for customers to top up the amount they pay.

Another option is for the Foundation to provide full accreditation to platforms that ensure that all workers are able to receive an effective hourly rate at the living wage. For some customers, this will not make a difference, and they will purchase purely on price. But studies conducted by the Living Wage Foundation suggest that many consumers are willing to pay more for goods and services if that means that workers are paid the Living Wage.<sup>64</sup>

For these options to work well, platforms would need to be fully transparent about how much of what the customer pays goes to the worker, and would therefore need to display an effective hourly pay rate. The Foundation would need to explore with platforms whether sufficient data is available to make this calculation. Many platforms, for example in cleaning and driving, already use information about hours worked to calculate prices. Many also take into account whether materials are provided by the self-employed individuals or not when charging customers, for example, Handy has an additional charge if cleaning materials are provided. In some cases, where data is unavailable, reasonable assumptions may need to be made, for example, to reflect the cost of travel between different jobs. We believe that these issues will not be insurmountable, although it may be more straightforward to implement for some platforms than others.

**Recommendation:** The Living Wage Foundation should explore how it can communicate its Living Wage rates to the self-employed and their customers, including through platforms, and encourage platforms to do more to show how many of their workers effectively earn the Living Wage. This could include exploring the option of platform accreditation.

In London, the Greater London Authority calculates a London Living Wage, and the London Mayor has taken a lead in encouraging employers to pay the London Living Wage, stating that “The Mayor wants the London Living Wage to become the norm for employers in the city by 2020, to help hard working Londoners trying to make ends meet in an expensive city.”<sup>65</sup> It has previously highlighted employers in London that have chosen to become accredited.<sup>66</sup> The Mayoral office could play a similar role in highlighting the

implications of rises in London's cost of living (as reflected in changes in the London Living Wage) for the self-employed. For example, it could publish data on pay of London's self-employed relative to the London Living Wage.

**Recommendation:** the London Mayor should raise awareness of the implications of changes in the London Living Wage for the living standards of the self-employed

Historically, unions have provided representation for workers and served to raise the relative bargaining power of workers. Their role for the self-employed is less clear-cut. However, there are ways in which they can adapt to the new shift, to the benefit of those in self-employment. There are examples of unions already making this shift, as explored in Box 3. Some are focussing on challenging cases of false self-employment. However, others are focussing on provision of services, such as insurance, which can help the self-employed cope with volatility in earnings and outgoings. Others provide training for the self-employed. In sectors where self-employment has historically been high, such as the creative industries, unions have found ways of pushing up pay despite the fragmentation that self-employment entails.

### Box 3: Unions and self-employment

Unions are increasingly challenging employment statuses on behalf of workers currently classified as “self-employed”. Examples include GMB which is taking a claim to an employment tribunal on the status of Uber drivers, whom it claims should be entitled to the national minimum wage and other rights.<sup>67</sup> The Independent Workers Union of Great Britain is supporting claims made by couriers that they should be treated as employees rather than self-employed.<sup>68</sup> Such action can play a valuable role in minimising “false” self-employment.

Unions also play a broader role in some sectors, especially where there is a long history of self-employment. For example, BECTU, operating in the TV and performing arts sector, has a membership that is around half freelance. The organisation negotiates rate cards for its members with businesses and industry groups in the sector. It also provides training courses, as well as other services.<sup>69</sup> Other examples include the Musicians’ Union, the National Union of Journalists and Equity.

Some unions are also doing more to engage with self-employed workers in sectors where self-employment was previously less common, but is now rising, such as logistics and parcel deliveries. Community provides advice and information to self-employed workers,<sup>70</sup> and has started to explore providing insurance services that help the self-employed cope with changes in their incomes.

There are also numerous examples of smaller cooperatives being set up to collectively market services to larger organisations and secure higher pay.<sup>71</sup>

These examples suggest that there is much that unions can do to adapt to a world with more self-employment, to the benefit of workers. However, whilst unions can play an important role, it is likely that the workers most in need of support are least likely to be aware of the potential support unions can provide. Research on workers more generally shows that the vast majority of low-paid workers do not belong to a union.<sup>72</sup> We would like to see more

unions following some of the best examples of marketing their services and provision of support to the low-paid self-employed.

As platforms become increasingly important, it should become ever easier to identify and provide support to the self-employed. This provides a good opportunity for unions to provide services that help the self-employed cope with periods of low earnings, and potentially provide representation, allowing them to push for higher pay. To help overcome the fact that the most low-paid may not explore union membership, we would like to see information on unions be made more accessible to low-paid self-employed workers. Platforms could play a role in this.

**Recommendation:** Government should encourage platforms to send users information about unions operating in their sector.

In sectors where there is a less established union presence, there may be a case for providing support for groups of self-employed individuals to come together and organise their own associations. Such associations could allow individuals to pool risk, as well as strengthening the voice of the self-employed and improving their bargaining power. But for the low-paid, membership fees are likely to be a barrier. There may therefore be a case for Government to facilitate the setting up of such organisations. The fact that there are unions that operate in sectors such as the arts and entertainment, where self-employment is high, suggests that such organisations can play a useful role even in sectors where the dominant contractual relationship is not the traditional employer/employee structure. Cleaning is a sector that is particularly low-paid, and is relatively poorly served compared to other areas.

**Recommendation:** BEIS should explore how it could facilitate the setting up of specific associations for the self-employed in sectors where low pay and self-employment are above average. This exploration should examine the option of setting aside a small funding pot to help fund start-up costs for such associations.

In our qualitative work with self-employed individuals, one concern that was raised was that some self-employed individuals working for firms do not have a full understanding of the potential costs involved. In the case of deliveries, this involved equipment or vehicle costs, or fees charged for late delivery or having to take time off sick. There is little evidence on how widespread a problem this is, and it may be the case that some such contracts should properly be regulated as employee contracts. However, we think this is an area that should be explored further. The Advertising Standards Authority has produced guidance around employment advertising, and many of the complaints it receives are related to jobs which appear to provide steady incomes, when in fact they do not.<sup>73</sup>

**Recommendation:** BEIS and the Advertising Standards Authority should review advertising of self-employment opportunities with a view to ensuring that associated costs, risks and potential liabilities are clearly stated in marketing materials.

However, there is also a question of whether individual workers are best placed to bear these types of costs and risks, and whether firms should do more to help. A difficulty is that if firms do more to help with these types of costs, then the relationship begins to look more and more like an employer-employee relationship. Indeed, provision of equipment is often considered as criteria in legal cases examining employment status.<sup>74</sup> Firms may therefore be reluctant to help with costs of equipment for self-employed workers, and risk an employment status challenge. We believe that this question should be examined as part of the employment status review that we recommend above.

## SUPPORTING THE SELF-EMPLOYED INTO HIGHER PAY

There are many existing organisations that the self-employed can go to for support. However, for those who are stuck in low-paid self-employment, there is a case that existing advice and support models are insufficiently targeted. Much support directed towards increasing pay is centred around business growth, and training initiatives are largely run by membership

bodies that the lowest paid are less likely to have access to. Box 4 summarises the main sources of support currently available.

#### **Box 4: Support for the self-employed**

##### **Government support**

Government support includes the New Enterprise Allowance, which provides money and support to help start a business for those claiming certain benefits;<sup>75</sup> start-up loans, which provide both loans and mentoring;<sup>76</sup> as well as support for those developing their businesses. This includes services provided by the Department for International Trade (particularly for exporting).

##### **Membership bodies**

FSB, Federation of Small Businesses, which provides support and advice to small businesses. It also provides insurance services and legal advice.<sup>77</sup>

IPSE, the association of independent professionals, which provides advice as well as insurance services to members. It also provides training opportunities to members and is currently campaigning to make training tax-deductible for the self-employed.<sup>78</sup>

However, such organisations, whilst providing valuable services to the self-employed more generally, are likely to be less engaged with those on the lowest pay. For example, 6 in 10 of FSB members employ staff, compared to around 15% of low-paid self-employed; 53% pay the Living Wage to all staff (including themselves); and 85% pay at least some staff the Living Wage.<sup>79</sup>

##### **Charities and third sector**

There are also a wide range of organisations providing business advice to individuals wanting to become self-employed, and more established small business owners and the self-employed. Many of these are locally focussed. This in addition to national charities such as the Prince's Trust. In London, examples include

- East London small business centre
- Association of Community based business advice
- Croydon Business Centre

There are also broader-focused charities for whom the self-employed represent an important group. Citizens Advice, for example, provides advice on a range of areas including debt, rights at work and welfare. Around a third of self-employed individuals who contact the service do so in relation to debt issues.<sup>80</sup>

Our findings from Chapter 3 show that those who receive training are more likely to escape into higher pay. However, without an employer, there is often little training infrastructure for the self-employed, especially those in low pay. Previous research has found that the self-employed are less likely to have access to training compared to employees.<sup>81</sup> Such training could be around relevant occupation-specific skills, or wider business training. Our qualitative research suggests that training around negotiation skills could be especially valuable for the self-employed.

One potential barrier is cost. Organisations such as IPSE are campaigning for costs of all training to be tax-deductible for the self-employed, as it is for employees. This is welcome. However, for the low-paid self-employed, who may not pay much in tax, there may be a case for financial support beyond this. The current funding system for skills is changing. Direct funding for further education is being squeezed.<sup>82</sup> Meanwhile, funding for training such as apprenticeships is increasing. Whilst the focus on workplace skills will be very valuable for some workers, this shift in funding is problematic from the perspective of self-employment. The apprenticeship system is necessarily one which is built around an employer-employee relationship, and the self-employed cannot undertake this type of training.

To help the self-employed obtain the skills they need to progress into higher pay, there is a strong argument for opening up the training opportunities that are currently mainly available to employees. One approach would be to set aside a training budget for the self-employed. A self-employed individual

could apply for a voucher or low-cost loan to spend on relevant training with a provider of their choice. One potential risk with this is in ensuring that funding goes towards valuable courses that are likely to boost earnings. However, this risk is likely to be lower in sectors where there are existing certified qualifications, such as construction (CSCS).

The London Enterprise Panel funds a number of projects to increase skills and employment in London, from the Government's Growing Places Fund.<sup>83</sup> Given the scale of self-employment in London, it would be well-placed to fund and evaluate a pilot on training models to support the low-paid self-employed.

**Recommendation:** The London Enterprise Panel should set up pilot training schemes for the low-paid self-employed, with evaluation of the impact training has on pay. As a first step, this should involve setting up a voucher scheme for low-paid workers in the construction sector to undertake certified training. Depending on the outcomes of these pilots, central Government should consider whether such schemes should be rolled out nationally, or to other sectors.

For some sectors, training is less important as a route to higher pay. As set out in Chapter 3, in some areas such as cleaning or gardening, the route to higher pay is in building up a reputation for high quality. This is an area where the increasing use of platforms is valuable, as they build up an individual's reviews and customer feedback. However, there may be case for ensuring that individuals are able to keep verified records of their ratings, should they decide to stop using a certain platform (or if a platform deactivates them). This would be useful for those who wish to start using a different platform more often, and want to take their reviews with them, perhaps uploading them to another platform website. It would also help those that want to move into an employee job, but may not have traditional employer references.

**Recommendation:** BEIS should work with platforms to facilitate the development of a verified, portable ratings file that workers can download and take with them to future jobs.

Platforms are also likely to hold a wealth of data that is likely to be useful to individual workers in helping them move into higher pay. For example, they are likely to have data on which local areas and which hours are the most profitable to work, and how customer demand is changing over time. Encouraging platforms to make more of this data readily available to its users would be of benefit.

Support to help the self-employed improve pay in their current line of work will not work for all individuals. As set out in Chapter 3, many of the low-paid self-employed are in highly competitive sectors where the prospects for business growth are likely to be limited. The findings from Chapter 3 demonstrate that the opportunity to work as an employee can be an important route out of low pay. In some cases, this may involve switching into new sectors. We believe that support organisations that work with the self-employed should help the low-paid self-employed explore these wider options more fully, examining the barriers to employee jobs and, where appropriate, referring individuals to broader careers services for advice. Support may include help and advice on updating CVs and references, as well as support to re-train in a different sector.

**Recommendation:** Existing small business support centres should develop links with broader employment support organisations that can provide wider support on employee job opportunities

The Government is currently examining how it can provide more support to self-employed individuals claiming welfare. Budget 2016 set out that that “the government will provide self-employed Working Tax Credit claimants with access to business support and extend the mentoring support offered on the New Enterprise Allowance scheme to self-employed Universal Credit claimants. The government will also trial face-to-face support from Jobcentre Advisors for self-employed Working Tax Credit claimants, with a view to national roll out if successful”.<sup>84</sup>

In the light of incoming changes that will make it harder for those on welfare to manage low self-employment earnings, this is a very welcome move. However, given our evidence on routes of low pay for the self-employed, Jobcentre Advisors will need to have very broad knowledge and expertise

to help individuals navigate the full range of options open to them. For some, support with business growth will be the right option, but for others, advisors will need to help individuals consider whether they can better use their skills in other lines of work, potentially as an employee; or by taking on a mix of employee and self-employed jobs. It is questionable whether Jobcentre Advisors will be able to provide this full range of advice, and in some cases, it may be sensible to refer individuals to other organisations for more specialist advice depending on their needs.

**Recommendation:** DWP should ensure Jobcentre Advisors are equipped and trained to provide support on making the transition from self-employed to employee, and moving across sectors, as well as business growth. The Government's planned trials should examine the best way of providing this support, potentially looking at models whereby Advisors refer individuals on to more specific sources of advice, depending on their needs.

As shown earlier, the minimum income floor in universal credit means that self-employed individuals earning less than an equivalent employee on the National Living Wage (or National Minimum Wage) are likely to lose out, unless such measures to support self-employed individuals into higher pay are successful. There is a 12 month exemption for start-up businesses, but no flexibility for those who have been in low pay for long periods of time and may face substantial barriers to progress.

If, for example, a self-employed individual finds that prospects for increasing their earnings are limited, it may well take some time to move into a new, higher paid line of work, especially if re-training is needed. For this reason, we think that an exemption period should also be in place for self-employed individuals who are transitioning from tax credits to universal credit, to give them time to take up support to help move into higher-paid work.

**Recommendation:** Low-paid self-employed individuals being moved from tax credits to universal credit should be given a 12 month exemption period from the minimum income floor to give them time to take steps to increase their incomes. This is separate to the existing 12 month period for start-up businesses.

## ANNEX

In this Annex, we set out further details of our methodology in conducting qualitative interviews, and in our qualitative analysis of the UKHLS.

### INTERVIEWS WITH LOW-PAID SELF-EMPLOYED WORKERS

In total, we conducted interviews with 20 low-paid self-employed workers in London, where self-employment rates are especially high. We commissioned the recruitment of interviewees through Indiefield.

Our interviewees worked in a range of sectors, across construction, building & landscape services, transport, professional services and retail. We had an equal gender split, and the age of the interviewees ranged from those in their early twenties to those in their mid-fifties. All earned £15,000 or less a year.

Interviews were conducted at home or at a public place of the interviewee's choosing, over the period February to March 2016.

### QUANTITATIVE ANALYSIS OF THE UKHLS

We analysed data from respondents in the UKLHS (Understanding Society) to examine how pay changes from year-to-year among the self-employed. Understanding Society is an initiative by the Economic and Social Research Council, with scientific leadership by the Institute for Social and Economic Research, University of Essex, and survey delivery by the National Centre for Social Research and TNS BRMB.<sup>85</sup>

Understanding Society is a survey conducted annually, with the same individuals and households tracked over time. Over 40,000 households made up Wave 1 of the survey. We used data from Wave 1 to Wave 5 of the survey, corresponding to 2009 to 2014. In each wave, around 3,500 to 4,500 individuals are self-employed. However, sample sizes can become smaller when linking across waves and breaking down groups by pay. When

calculating one-year transition rates, we therefore averaged rates across multiple years, to ensure robust results.

Our measure of low pay is 2/3 of median earnings of employees, in line with our chosen threshold in our first report, Tough Gig: low-paid self-employment in London and the UK. As we set out there, most previous analyses 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.

## ENDNOTES

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