



Under Pressure

Enabling the
vulnerable
self-employed
to break free



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Whether it's record-breaking figures, the "gig economy" or debates about taxation, self-employment is rarely out of the headlines. One in seven UK workers are now self-employed, but confusion still reigns about who exactly they are and what self-employment is like for them¹.

Much of the public debate about this crucial part of the labour market is polarised or even misleading – conflating zero-hours contracts with self-employment, for example, is a frustratingly common mistake among commentators. The Taylor Review was a welcome attempt to reflect on modern work, and helped spark a debate both about the quality of self-employed work and the extent to which certain sections of the self-employed community are in a difficult or "vulnerable" position.

It is worth emphasising that the vast majority of self-employed people enjoy their way of working. Research from the Department for Business, Innovation and Skills in 2016 found that self-employed people most value their independence (79%), followed by their flexibility (75%). Over half said they are financially better off in self-employment than as an employee, and 84 per cent said that life overall was better in self-employment². However, a proportion of the self-employed population seem to find themselves in a much less strong position.

What is the purpose of this paper?

IPSE and Community believe it is now up to those who represent the self-employed to shed light on the true extent of vulnerable self-employment, and outline the practical solutions policymakers should explore to address it.

Other organisations have focused solely on low pay when discussing the issue of "insecurity" or "vulnerability" in self-employment. The Trades Union Congress and the Social Market Foundation, for example, estimate that 1.7 million self-employed people are insecure or vulnerable.

In this paper, however, IPSE and Community consider not just earnings, but also a range of other important factors. We recognise that low pay is a key contributor to insecurity but note that there are also equally important factors that should be considered. We explore these in Section 2.

Our paper answers four key questions:

- What is vulnerable self-employment?
- Who are the vulnerable self-employed?
- What particular challenges do the vulnerable self-employed face?
- How should policymakers tackle the problem of vulnerable self-employment?

Our six-point plan to help the vulnerable self-employed break free:

The Centre for Research on Self-Employment (CRSE) has produced a report that provides detailed analysis of self-employment³. It breaks down the self-employed population into nine segments, ranging from segment one which includes drivers and cleaners, to section nine which includes legal

¹Office for National Statistics, 2017, UK labour market: October 2017

²Department for Business, Innovation and Skills, 2016, Understanding self-employment

³CRSE, 2017, The true diversity of self-employment

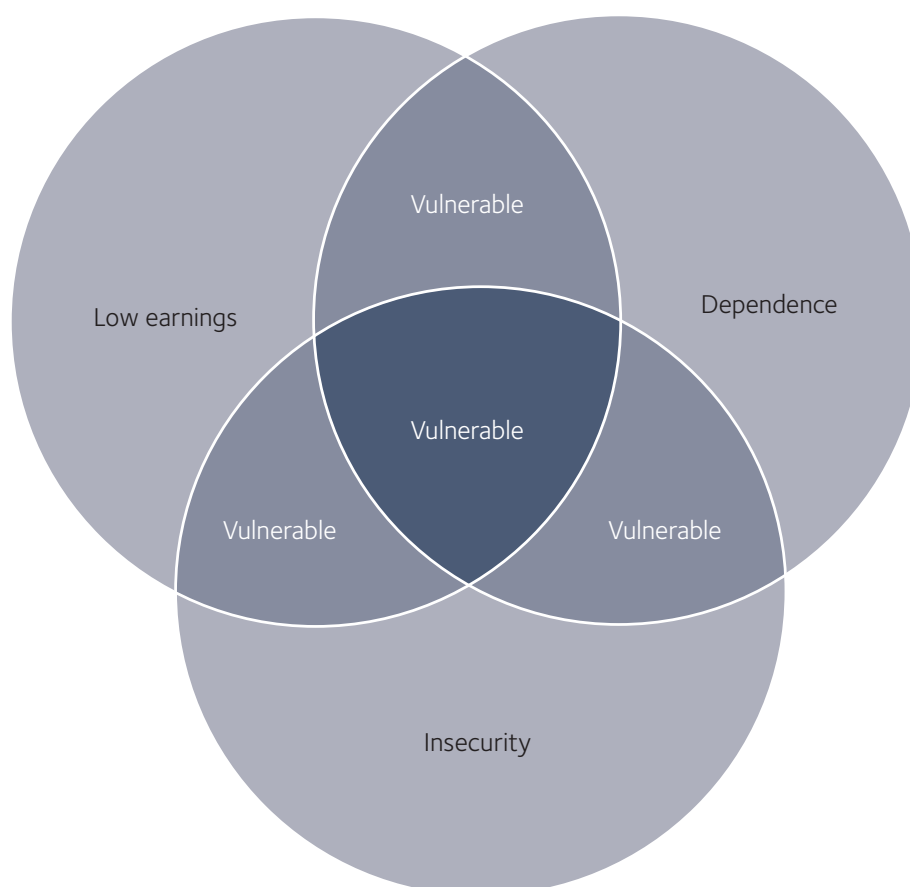
and business professionals. IPSE and Community's report aims to build on that analysis and produce a set of policy proposals to support the vulnerable self-employed.

Our analysis considers not just low pay, but also insecurity and dependence on clients. Where an individual's working conditions display two or more of these characteristics, they are considered at risk of being vulnerable.

To help those at risk of vulnerable self-employment into a stronger position, IPSE and Community recommend the Government prioritise six actions:

1. Back training as a route out of low pay
2. Amend Universal Credit to ensure a level playing field for the self-employed
3. Provide fair parental benefits to boost security
4. Fight no pay and low pay by giving the Small Business Commissioner real and effective powers
5. Tackle exploitation through a statutory definition of self-employment
6. Incentivise ways to help the self-employed come together and represent themselves

Defining vulnerability



We believe that if you meet two to three of these criteria, you are at risk of being vulnerable. More detail on how these six policies could be implemented can be found in Section Five.

2. What is vulnerable self-employment?

Self-employment in the UK today

For the vast majority of the UK's 4.8 million self-employed, working for themselves is an attractive alternative to employment⁴. It gives them real flexibility and the ability to fit their work around the other commitments in their lives.

Self-employed people also get a lot of satisfaction from "being their own boss", and even people from less well-paid parts of the self-employed community feel a high level of personal satisfaction⁵.

IPSE's own research shows that three in five self-employed people chose to work for themselves so they could have more control over how they work, greater earning potential and a better work/life balance⁶.

Attributes of self-employment:

- Freedom to have several customers at any one time
- Set your own fees for your work
- Opportunity to work when, where and how you want
- Provide your own equipment

Self-employment has clearly given many people the opportunity to work more flexibly and, in some cases, increase their earnings. This report aims to address the challenges faced by people at the other end of the spectrum, who may endure increased dependency and lower earnings.

Defining vulnerable self-employment

Although the vast majority of self-employed people are happy working for themselves, we should be looking at ways of supporting others who do not enjoy the same benefits from this way of working.

A growing number of organisations are now contributing to the debate about vulnerable self-employment. Some refer to it as "precarious self-employment", and others prefer the term "insecure work". This has led to a variety of estimates about the number of people who can be categorised as vulnerable self-employed.

To avoid confusion about what it means to be vulnerable self-employed and establish how many are likely to fall into this category, IPSE and Community have developed a definition of vulnerable self-employment.

Our definition of vulnerability stems from research produced by the CRSE. It breaks down the self-employed population into nine segments based on three key indicators:

- level of earnings
- level of dependence in their work
- level of security

We adopted these three indicators for our definition of vulnerable self-employment because they are the most reliable and measurable indicators of vulnerability to-date.

As a result, IPSE and Community believe that for an individual to meet our definition of vulnerable self-employment, their work must entail at least two of the following characteristics:

⁴CRSE, 2015, The handbook of research on freelancing and self-employment

⁵Bright Blue, 2016, Standing alone? Self-employment for those on low income

⁶IPSE, 2017, To be or not to be a freelancer: Job satisfaction and wellbeing

What we found

825,300

people show at least two characteristics suggesting the risk of vulnerability, equal to 21 per cent of the self-employed

Those that are most vulnerable account for

9–13%

of the self-employed

Of the six professions least likely to save for a pension, five have a high proportion at risk of vulnerability:



carers



car mechanics



child-minders



cleaners



drivers

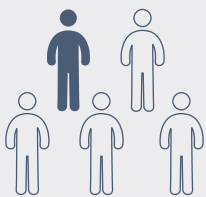


The vulnerable self-employed find it difficult to save for a pension



11.2%

of those at risk of being vulnerable self-employed do not have any qualifications



One in five of those at risk of being vulnerable self-employed have degree-level qualifications

compared to



one in three of those not in vulnerable situations

- **Low Earnings:** Professions with lower average hourly earnings
- **Dependence:** High dependence on a client because there is a lack of autonomy or control
- **Insecurity:** Typically seeking to move out of an occupation, or unable to plan for their future – for example by saving into a pension scheme

This is because one factor on its own is not enough to suggest the risk of vulnerability. For example, a self-employed person may have low pay but if they show high levels of independence and security they are not likely to be vulnerable.

3. Who are the vulnerable self-employed?

- CRSE identified 825,300 people who are facing insecurity: this equates to 21 per cent of the self-employed workforce
- However, IPSE and Community have analysed these figures further based on our own two-indicator definition
- As a result, we see vulnerability as defined by at least two of the following indicators (rather than just insecurity): low earnings, dependence and insecurity
- IPSE and Community believe the proportion of self-employed people at risk of being vulnerable is between 9 and 13 per cent
- These individuals find it hard to save for a pension and include occupations such as drivers, cleaners, mechanics, child minders and carers
- 11.2 per cent of those at risk of being vulnerable self-employed do not have any qualifications at all

More detail on the methodology behind these figures is available in the annex at the end of this paper.

4 . What particular issues do the vulnerable self-employed face?

Low pay and dealing with Universal Credit (UC)

In practical terms, living with low pay for extended periods can mean individuals are less able to save for retirement and access financial products such as loans and mortgages. It also affects whether they can invest in their professional development and “make ends meet”, particularly if they are living in the costlier parts of the UK such as London and the South east.

The minimum income floor explained

The MIF is an assumed level of earnings that is used to calculate a person's UC entitlement. If a claimant earns more than the MIF they will receive less, and when a person earns less they will not be offered more money to top up the loss.

The key issue is that when calculating payments, the system does not take into account fluctuations in earnings between months. This is unfair for the self-employed, who in general have much more fluctuating incomes.

The new Universal Credit (UC) system exacerbates the risk of vulnerability for self-employed people with low pay. Estimates suggest that between 17 and 19 per cent of the self-employed access some form of welfare payments^{7 8}. And in its attempt to simplify the welfare system with the new

⁷Bright Blue, 2016, Standing alone? Self-employment for those on low-income

⁸The RSA, 2017, The entrepreneurial audit

UC benefit, the Government appears to have made it harder for many of these people to access benefits. This is because in practice, they have made it more complex for those who rely on welfare for housing support and their working tax credits:

How the minimum income floor is calculated

The MIF is equivalent to the National Minimum Wage, which for most employees or workers is £7.50. This is multiplied by 35 (the assumed hours worked per week) and then by 52 (the weeks in a year), totalling £13,650.

- UC entitlement is tied to a minimum income floor (MIF), which doesn't properly take into account the fluctuating income of the self-employed.
- People who have been self-employed for less than a year are exempt from the MIF, which means their benefits are not decided by their earnings (see Box 1 and 2 for more detail). This is known as a 'start-up period'. In practice this means that a person may receive more UC than someone who falls within the MIF. In theory, this could be a major benefit for self-employed people in the most vulnerable stage of their career. However, the SMF⁹ estimate that so far over 90 per cent of self-employed people have been beyond this 12-month limit, and so cannot benefit from the ruling.
- In addition, UC claimants have to wait for six weeks before receiving their first payment. This places undue financial pressure on a self-employed person who is already in a more vulnerable situation. IPSE and Community support the Work and Pensions Select Committee's call to reduce the first payment waiting time to one month.

Welfare protections

One area where stark differences exist between employed and self-employed people is in the support they receive from the welfare state and their corresponding rights. The welfare state was designed for a time when most people had one job for life, working for the same employer. Any people who were self-employed tended to be better off and were not particularly affected by not having access to welfare protections. As self-employment has grown and diversified, however, this lack of access has become a problem for many less-well-off self-employed workers.

The issues

- Self-employed people have little or no access to maternity and paternity pay, shared parental leave and adoption leave and pay.
- Self-employed mothers claiming Maternity Allowance have none of the legal protections afforded to employees when they go on maternity leave. Self-employed parents are also ineligible for Shared Parental Pay. As a result, the entire burden of childcare is placed on the mother, who is also trying to maintain her business so she will still have clients to return to.
- Employed pregnant women can be suspended from work on full pay if they work in unsafe premises and environments. Self-employed pregnant women, on the other hand, are not entitled to this and would therefore most likely have to continue working in unsafe conditions.
- Self-employed mothers who take up paid work while on maternity leave – which they most often do out of necessity – are likely to lose their Maternity Allowance.

Because of the nature of self-employment, there is generally pressure for women to return to work quite quickly. While employees are entitled to return to a position of the same standing after their maternity leave, self-employed women have to keep taking care of their business to make sure they

⁹SMF, 2017, Tough gig: Tackling low paid self-employment in London and the UK

actually have a business to come back to. This makes it difficult to support families and adds a barrier to improving their standard of living. The Government should look at this issue and ensure that self-employed women are able to look after both their families and their businesses.

Gender equality should apply to all, not just those in traditional employment. IPSE and Community recommend that the Government should act soon to ensure equality across all groups who cannot access the same support from the Government. It should develop a new package to guarantee that work is fair for everyone.

Training to upskill

Self-employed people at risk of vulnerability also face another barrier: their generally lower qualification levels and the difficulty of accessing training and upskilling opportunities. This makes it more difficult for them to “escape low pay”¹⁰.

For some, affordability is the biggest obstacle to taking up training opportunities – both because they struggle to pay for training itself and because many cannot afford to take the time off for it. This is exacerbated by the lack of support from clients and the Government.

As for those self-employed people who are able to take advantage of training opportunities, there is clear evidence it gives a significant boost to their earning capacity. In fact, research suggests that 30 per cent of self-employed people who undertake a programme of training are able to escape the low pay trap one year later¹¹.

Exploitation and unpaid work

Research for IPSE’s No Free Work campaign¹² revealed a growing problem in the UK: more and more self-employed people are being exploited by clients who fail to provide payment for their services.

The problem is particularly present in:

- Beauty – 26 per cent of the total
- Photography – 19 per cent
- Fashion, graphic and product design – 12 per cent

In addition, IPSE found it disproportionately affects 16–29-year-olds (44%), followed by 30–39-year-olds (29%).

The research also found that exploitation generally took place because self-employed people felt they had to take on unpaid projects to gain exposure for their name and work (54%), as well as exposure within their industry (46%). Interestingly, 20 per cent said the problem persists because it is standard practice in their industry. Exploitation, IPSE found, costs the average self-employed person £5,395 per year.

Individuals may also face exploitation because of a lack of clarity about their employment status. There is currently no statutory definition of self-employment, which means it is relatively easy for unscrupulous employers to push vulnerable people into self-employment.

Conclusions

We have clearly identified a small but significant minority of the self-employed community who are at risk of vulnerability – experiencing low earnings and a lack of both control and security in their work.

¹⁰SMF, 2017, Tough gig: Tackling low paid self-employment in London and the UK

¹¹SMF, 2017, Tough gig: Tackling low paid self-employment in London and the UK

¹²IPSE, 2016, Creative freelancers losing over £5k a year due to unpaid work

Their vulnerable position has a number of knock-on effects. Many low-paid self-employed people face problems in the Universal Credit system, and a significant number are driven to unpaid work. There are also many who are being forced into self-employment because of the lack of clarity about employment status in the UK.

There is a strong case for policymakers to take action and address these problems. More must be done to lift the vulnerable self-employed out of their challenging circumstances and into a stronger position.

5. Our recommendations

IPSE and Community recommend a number of key measures to improve conditions for the vulnerable self-employed:

- 1. Improve access to training as a route out of low pay:** The issue of low pay is exacerbated by lower levels of training and qualifications among vulnerable self-employed people. Cost is just one barrier preventing the vulnerable self-employed from accessing training. The lack of flexibility in the way most training is organised, as well as the difficulty of balancing work and care responsibilities can also be significant factors.

Government should make training for new skills tax-deductible, which would quickly make upskilling much more attractive and viable for those on low pay. Government doesn't have to do it all though – it should explore introducing a set of robust criteria for certifying online training courses delivered in the private sector. This would give vulnerable self-employed people an opportunity to escape low pay – the best guard against vulnerability.

- 2. Ensure Universal Credit works for the self-employed:** Because of the way the minimum income floor works, Universal Credit will disproportionately hit the self-employed. Extending the one-year minimum income floor (MIF) period to two-years would open it out to a much larger proportion of the low-earning self-employed. The MIF should also be calculated on a quarterly or annual basis to properly account for the fluctuating incomes of the self-employed.

These reforms should mitigate the threat of Universal Credit to the living standards of the vulnerable self-employed. IPSE and Community also call for the Department for Work and Pensions to conduct an assessment of the impact of UC on the self-employed.

What do we mean by false self-employment?

False self-employment generally refers to companies who engage people as self-employed to avoid certain taxes such as national insurance contributions – or to be exempt from providing them with employee or worker rights. Despite a significant amount of concern that this is one of the main factors forcing people into vulnerable self-employment, there is still a lack of evidence about this specific issue.

- 3. Create a self-employed benefits package** – including maternity pay, paternity pay, and paid shared parental leave. While employees are entitled to these, the self-employed cannot access them. The Government should explore ways to extend these parental benefits to the self-employed. Introducing a parental benefits package that works for self-employed people will give them the safety net they need to protect and grow their businesses.
- 4. Strengthen protection against late payments and no pay** – by ensuring the Small Business

Commissioner has real power to hold late and non-payers to account. Guaranteeing payment terms and the right to a written contract – as was done in New York through the Freelancing Isn't Free Act – would also be very positive steps.

- 5. Introduce a statutory definition of self-employment:** Lack of autonomy is a crucial factor in vulnerable self-employment. And because lack of autonomy may indicate false self-employment, it brings the employment status of many in this group into question.

A statutory definition of self-employment would reduce the risk of false self-employment because it would make it harder for businesses to force people into self-employment against their will. This solution would not only give falsely self-employed people back their rights; it would also give the legitimately self-employed greater control where it is lacking.

- 6. Incentivise ways for the self-employed to come together** – whether through mutual assistance groups, co-operatives, trade unions or membership organisations.

Organisations like these allow people to mobilise collectively around the issues that matter to self-employed people. They allow the self-employed to work together to promote change and improve the lives of the vulnerable self-employed. Crucially, they act as a hub for like-minded self-employed people to come together where otherwise they would be forced to act alone.

IPSE and Community believe that these simple but bold measures can go a long way to improving the lives of the vulnerable self-employed. With the UK's flexible labour market growing every day, it is now more important than ever to ensure self-employment remains a positive choice for everyone.

Annex

How we arrived at our total number of vulnerable self-employed

Identifying the number of people that are in vulnerable self-employment presents some challenges. Different organisations have attempted to do this, and the range of vulnerable self-employed people



they identified differs depending on what data sources they used and how they defined this category.

To begin with, IPSE and Community drew upon the CRSE's 'True diversity of self-employment' report. In this report the CRSE focused on the issue of insecurity within self-employment rather than vulnerability, concluding that 825,000 self-employed people were at risk of insecurity. This figure comes from the groups they define in their report as segments one, two and four – covering professions such as drivers, mechanics and childminders.

However, because the CRSE's report concentrates on security rather than vulnerability, IPSE and Community felt that the figures the CRSE produced had to be analysed further to get a more accurate picture of vulnerable self-employment. The self-employed people in the CRSE's segment two, for example, tend to be highly qualified, meaning self-employment is a clear choice for them. IPSE and Community focused just on segments one and four because these segments are made up of self-employed people who are less qualified and possibly went into self-employment because they were unable to find work elsewhere, unlike self-employed people in segment two of the CRSE study.

As a result, IPSE and Community identified between 9 and 13 per cent of the total self-employed population – equating to between 353,571 and 510,714 people – as at risk of being vulnerable.

As already mentioned, other organisations such as the TUC¹ have identified a much higher number of people as in vulnerable self-employment. According to their estimates, there are 1.2 million people who are likely to be in vulnerable self-employment. The study only looks at earnings when determining vulnerability, and while both Community and IPSE recognise this as a key contributor, we also believe that considering other wider factors such as dependence and insecurity sharpens the focus on what policy interventions are needed to reduce the number of vulnerable self-employed.

¹TUC, 2017, The gig is up



IPSE, the Association of Independent Professionals and the Self Employed, is the representative body for the UK's self-employed community, including freelancers, contractors, consultants and independent professionals.

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Community is a modern trade union with over a hundred years' experience standing up for working people. With roots in traditional industries, Community now represents workers across the UK in various sectors.

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