HOUSE OF COMMONS

Work and Pensions Committee

Oral evidence: Self-employment and the gig economy, HC 847

Wednesday 22 March 2017

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Watch the meeting

Members present: Frank Field (Chair); Heidi Allen; Ms Karen Buck; Luke Hall; Steve McCabe; Craig Mackinlay; Royston Smith.

Questions 301-350

Witnesses

I:Andy Chamberlain, Deputy Director of Policy and External Affairs, IPSE, Matt Dooley, Enterprise Director, Peopleplus, and Sam Windett, Head of Policy and Communications, Employment Related Services Association

II: Stuart Adam, Senior Research Economist, Institute for Fiscal Studies, Benedict Dellot, Associate Director (Economy, Enterprise and Manufacturing), the RSA, Nigel Keohane, Research Director, Social Market Foundation, and Victoria Todd, Senior Technical Manager, Low Incomes Tax Reform Group

Written evidence from witnesses:

Matt Dooley, Enterprise Director, Peopleplus

Sam Windett, Head of Policy and Communications, Employment Related Services Association

Benedict Dellot, Associate Director (Economy, Enterprise and Manufacturing), the RSA

Nigel Keohane, Research Director, Social Market Foundation

Victoria Todd, Senior Technical Manager, Low Incomes Tax Reform Group

Examination of Witnesses

Witnesses: Andy Chamberlain, Matt Dooley and Sam Windett

Q301 **Chair:** Welcome. For the sake of the record, so we can identify people, Andy, might you start and introduce yourself and we will just go down the row? Then Royston will start with the questions for us.

Andy Chamberlain: I am Andy Chamberlain. I am the Deputy Director of Policy and External Affairs at the Association of Independent Professionals and the Self-Employed.

Sam Windett: I am Sam Windett. I am the Head of Policy and Communications at ERSA, the membership body that represents the employment support sector, with around 250 members across the UK, many of which help people into self-employment.

Matt Dooley: Good morning. Matt Dooley, Enterprise Director at PeoplePlus. We are quite a large employability business. We help people with finding work and also self-employment. That is the division I look after.

Q302 **Royston Smith:** I will kick off, if I may, to talk about work coaches. In your opinion—probably Andy and Sam—do you think that work coaches who advise self-employed people should have direct experience of self-employment themselves? Do you know if there are any that do?

Sam Windett: When we say "work coaches", we mean Jobcentre Plus work coaches, I presume?

Royston Smith: Yes.

Sam Windett: I would answer that as a "Yes" and "No" and "No". Yes, it is always desirable to have skills and expertise in common with the person that you are trying to support into employment, but I would say in self-employment, in particular, to have lived an experience of setting up your own business is very important. There are the programmes like the NEA, the New Enterprise Allowance, which has mentors within it who have skills and experience themselves to help people to set up in self-employment.

Also, in the Work Programme, some of the most successful providers within the Work Programme helping people into self-employment do not have generalist advisers. They actually have specific enterprise coaches within their business. I have met a number of these, and I have to say they are incredibly impressive. There was a lady in Derby that I met—an enterprise coach—who was running three or four business in the Derby area, while also giving advice to the customers who came through the door. I don't know how they hang on to those people, because they are off running other business, but that kind of lived experience of really knowing the local area but also self-employment in the local area is very important.

I would say "No" to the second part of that question, "Should Jobcentre Plus have that experience?" because of the model that DWP is working to at the moment. As we know, the DWP model is a generalist work coach. Now, this does not fit with that model that they are pursuing, whether we think that is the right or wrong model that the DWP is pursuing. We don't know how many work coaches have experience of self-employment. I think that is something the Committee could possibly ask for data on. I am not sure it is available.

I do know that there is a scheme in Croydon that Jobcentre Plus is pursuing with StartUp Croydon to try to share some of learning, but that is one Jobcentre and I don't know of that happening elsewhere. It might be worth looking at what the learnings are. When I last heard about that, I did not see, in terms of actual outcomes of self-employment in the area, whether they were tracking those. Again, that might be useful to know.

The best model is like the NEA; that is very successful. The Jobcentre Plus coach is a generalist and they refer to a specialist. That works very well with the NEA, so I would say that is the answer.

Andy Chamberlain: I am broadly in agreement there. In an ideal world, it would be invaluable to have someone with real-life experience of working for themselves to give that advice to other people who are considering taking that step. One of the best things that they could do is offer them advice on whether it is the right option for them in the first place, because sometimes there is a concern that people may be going down that road when it may not be the best idea for them. We promote self-employment. We think self-employment is a very good option for a lot of people, but not necessarily for absolutely everyone. In an ideal world, yes, but I think that there are practical problems with it, as Sam has highlighted perfectly well there.

I believe it used to be the case that there was something called a self-employment adviser in Jobcentres but that no longer exists. I am not sure why. If there could be someone on hand to give advice that would be very helpful, whether that be the work coach themselves or whether it be someone else. I don't know what the best model would be. Undoubtedly, as we are seeing this rise in self-employment, with more and more people becoming self-employed—and we have low unemployment in large part thanks to our very rapid rise in self-employment—I think that it is an option for people but they are going to need good advice. How they get it and whether the work coach is the best way, I am not sure.

Q303 **Royston Smith:** To follow that up then, Andy, as you said you promote self-employment. The organisations we have heard from already, which you will probably be familiar with, Uber, Deliveroo and so on, which of those—or any of those or all of those—in your opinion meet the criteria for gainful self-employment?

Andy Chamberlain: The short answer to that I think is yes, but if I can just expand on that quickly. One criterion is that the activity has to be your main income source and the earnings from it are genuinely self-employed earnings. That is the somewhat questionable area, which we can just park for a moment. Then it has to be organised, developed, regular, and carried on in expectation of profit. I think that it ticks all of those boxes fine. There is a question that is being debated at large at the moment over whether or not it is genuine self-employment in some of these models.

My view is that this is not the right place to judge that. If someone is working, say, as a driver for Uber or in Deliveroo, and they want to access Universal Credit, for example, for them to be questioned as to whether it is real self-employment I think is not the right place to do it, because the individual is told that they are self-employed. As far as they are concerned, they are self-employed. There is a question over whether that is actually right and whether perhaps they should be a worker or employee. That is for something else. That is not for here, I would say. Yes, the short answer is that they should meet the criteria for gainful self-employment.

Chair: Royston, can Karen come in on this and then back to you?

Q304 **Ms Buck:** I want to ask you if you thought we should, in definitional terms, be looking at a new category within self-employment that relates to individuals who are notionally self-employed but under a platform or a company. Because we are, are we not, slightly blurring the categories between entrepreneurship and setting up a business and working for yourself, but in a relationship with a company of some kind? Yes, almost as a contractor. In definitional terms, do we need to try to find a way of separating those out?

Andy Chamberlain: Yes.

Chair: We will start with Andy. Let's go down the line, if we may. Andy's answer is yes.

Andy Chamberlain: Yes, you are absolutely right. This whole area has become hugely conflated and people are now using the term "gig economy" as if that means one thing and perhaps that is just what self-employment is. No one quite knows what term they are using or what they are describing. We do need to have a good look at that. Thankfully, Matthew Taylor is conducting a review, which the Prime Minister asked him to do, which I think is going to look at some of these things. This issue of status is going to be considered within that.

Chair: He is coming in shortly.

Andy Chamberlain: Yes. You are absolutely right; I think that that is an area that we do need further exploration of.

Sam Windett: That would be incredibly helpful, because in this debate, where providers on the frontline are finding self-employment, particularly for disabled people and people with caring responsibilities, it is a very good route into employment. That has been muddled with this gig economy, bad self-employment debate. They are quite separate things. I know that this inquiry is looking at it all in the round, but I think that would be quite helpful to separate out. I know that Ben from the RSA has seven different types of self-employment and I am sure he will go into that later.

Matt Dooley: I tend to agree. If I can just take you back to the first question because we have some good information about the work coaches. The way we are set up as a business is not too dissimilar. We run the Work Programme for long-term unemployed. Within our Work Programme we have work coaches—we call them job coaches, but it is a similar role—and then the specialist self-employment advisers. We have tried it both ways. We have tried it with the job coaches offering the self-employment advice and we have tried it with the specialists. The success rate with the specialists is far, far higher. The sustainment rate with the job coach was around 25% and it was about 85% when you use specialists.

We have a stand-alone provision. It is intensive pre-start support. It is intensive post-start support as well, and helps with the business plan and market research, marketing and so on. That model has proved very, very successful for us. Interestingly enough, the statistics within the Work Programme, DWP said that 11% of all paid outcomes at six months are from self-employment. Our percentages are 22%, so we know that is successful.

The rest of the industry is not really doing that. Most of the providers are using their frontline job coaches. That can have some success but do they have those in-depth skills, do they have that in-depth knowledge? Think of the complications: questions around VAT, self-assessment and so on to deliver that advice. That has led to some of the problems we have now with the Universal Credit policy.

Chair: We are going to come on to that.

Matt Dooley: Yes, sorry.

Q305 **Heidi Allen:** It is just exactly that point, isn't it? I have to say at this point I am completely confused as to what self-employment is. I used to think that I was self-employed, but maybe I am not sure now.

I think through the muddle I am hearing from all of you—correct me if I am wrong—that Jobcentre Plus work coaches, in the generalist role that they have, are not the people to give advice to a self-employed person, as much as we can understand self-employment. Linking to Frank's point about Universal Credit, which is this dream machine, the relationship between you, Universal Credit and your work coach, which is going to help you not only find work but earn more, how is that going to work for self-employed people? In terms of the job coach and the Universal Credit system, where is the advice going to be from, "Yes, you might be self-employed but you are not even earning minimum wage, come on, we need to get you up"? How is that going to work? We will start with Matt.

Matt Dooley: It is incredibly challenging. I have been working on this policy since its inception. We have over 400 customers that have been on Universal Credit, some for over two years now, and self-employed. We have a live case study. There are a number of challenges around the policy. In general, most of them I agree with and I understand why they were brought in, to tighten up the system, to make it more robust.

The gateway interview is the first stage. If a customer wants to go self-employed, they have a gateway interview with their work coach. We are seeing quite a few complications with that, with work coaches saying, "I don't think your business idea is viable. You are not allowed to go on to the next stage". That causes some problems. Sometimes that can be in conflict with NEA, where DWP pay us to make that expert decision about whether a business is viable and can trade; the same with the Work Programme. There is then the gainful self-employment test, which has its challenges as well: again, different interpretations of that, we are seeing differing levels.

The accounting methodology used for Universal Credit differs from self-assessment. There are some differences with capital expenditure and how you keep your books. We end up having to teach customers how to keep two separate sets of books, which is challenging enough when you are dealing with the long-term unemployed, to teach them one in self-assessment and tax return; two is more complicated.

They get one start-up period. If they have a break owing to a health reason or need a holiday or something like that, they cannot come back on to the scheme. All these things are challenges. They have to report their income monthly. I understand the rationale behind that; it was to tighten up the system. A lot of people went self-employed particularly around the recession, maybe through some of those schemes where they had not had proper self-employment advice in the first place and there was a problem there.

I think that kind of resolves those issues, but I think they have gone a little bit too far with the minimum income floor. That comes into place at 12 months, so when the business has been trading for 12 months the minimum income floor applies. It is quite a complicated calculation but, in essence, for the majority of customers, it is a bit of a cliff face. Your support with benefit stops at 12 months for most cohorts of customers.

Q306 **Chair:** What is your advice to the Department, Matt?

Matt Dooley: My advice would be that our own stats, and 30 years' worth of Government stats and independent research stats, have proven that this customer group can go on to sustain into year 2 and to year 3 and onwards. My own review says that 60% are recruiting staff and are showing growth in turnover.

Q307 **Heidi Allen:** They are people who have come through a specialist trainer like you?

Matt Dooley: Yes. All the previous Government schemes operate around a similar per cent. About 70% of customers are getting to 12 months and then becoming non-benefit dependent, in year 2 or year 3, and contributing to the Exchequer and so on. I think that 12 months is too far. It needs to be put back or scrapped altogether. It should be based on turnover and not on income. I think 92% of all businesses in the UK don't make a profit in the first year, and we are expecting businesses set up from a long-term unemployed background to be making the equivalent of £12,000 net profit a year. I think it is too stringent.

Our case study: at the moment, we have over 400 customers that are on Universal Credit and are going through the Universal Credit journey. As I said, our tradition is to sustain to 12 months and it hovers around 75%.

Chair: I think that is really helpful, about changing it from a calendar year to actual turnover.

Matt Dooley: Yes.

Sam Windett: Just on the in-work support bit, I have been into the Jobcentres recently that have UC full service and have the caseload of in-work support, but when you are talking about self-employed people it is such a different dynamic that you are talking about. You are not talking about increasing your hours. They are probably working all the hours God sends, all that they can. It is also about investing in your business, buying equipment and potentially taking on new staff. I know that Jobcentre Plus work coaches are not being equipped to have those conversations. I haven't heard anything about that. I would say Jobcentre Plus isn't the place to have those conversations unless they get that specialist expertise, which I cannot see happening in the model at the moment.

However, you do have people like NEA providers who do help people to set up and then sustain through. Again, I would say that transferring that out to a specialist would be the only route I can see at the moment. I cannot see how the Jobcentre will sit with the claimants.

Q308 **Heidi Allen:** So in terms of that Universal Credit and your role with the Jobcentre work coach, who is in fact your Universal Credit guide, they are talking to you just about money, income and benefits and then you have somebody else who is talking to you about your business?

Sam Windett: That is a tricky one, but it used to work when you had the benefit support advice separate from employment support. Perhaps that is the model that we should go down with this. If you are just going to be generalist as a work coach, then you need the specialisms to draw on.

Get the specialisms to draw on would be my advice. They are out there. They are in the programmes existing at the moment. At the moment, somebody on ESA has 88 minutes a year with a work coach. That is someone with disabilities or health conditions. We are talking about how much time will a work coach have? How much practical experience do they have in providing that advice? To me, if they only have a short amount of time, the only option they have is to then say, "Okay, this is somebody I have flagged that might need some more support", which would be great, "I am going to refer you to somebody that can provide it".

Q309 **Chair:** So they need a budget?

Sam Windett: They would need a budget. They would need funding for that.

Q310 **Heidi Allen:** I was just going to ask, Frank, is it part of this contractor model? I forget the system that the Jobcentres say they have now, where—

Sam Windett: The DPS?

Heidi Allen: Yes, the work coach can pick up specialists.

Sam Windett: The Dynamic Purchasing System, potentially. That has teething issues at the moment but, if that were to work in a commercial sense and you could pick from a menu and you say, "Okay, this person needs this type of support. Who provides it? I will purchase it", there is no reason why, in a perfect world, that system couldn't work.

Matt Dooley: Yes. If you look at the marketplace that the work coaches have at their disposal, you have NEA, which is for the newly-unemployed and is a reasonably good scheme, but the vast majority of people on all the other employment schemes don't have a self-employment offer. That is one of the issues, yes.

Andy Chamberlain: On Universal Credit, I think we are all in agreement that the problem we are seeing is that the 12 months' start-up period, where you don't meet the minimum income floor, is too short because businesses just cannot get themselves up and running, and then there is a cliff edge. As Matt said, after 12 months they have to be quite profitable and that is not easy to do.

There is also this problem of the monthly reporting, which I think we have all identified as a real problem. Typically, a business on a self-assessment is an annual event. Here they have to report monthly and, as Matt says, it is a slightly different accounting system. It is a cash-in, cash-out basis. There is an admin burden thing to that and there are quite specific timelines they have to meet in order to get it, which is a bit of a pain. Apart from that, it also means that, because self-employed people have fluctuating income, they may not make it one month but then they will make up for it the next month but, in the one month they don't make it, they don't meet the minimum income floor and they don't get the UC. Over the course of a year they can earn the same amount as an employee would, but they will have less UC entitlement because of the monthly basis. Our advice would be: could it be move to an annual basis?

There are all sorts of reasons why that would be good because, in addition, as Sam said, if you were to invest in something in one month, that is going to basically kill the profit for that month. If you did it over an annual basis you could even that out. There is also Making Tax Digital—

Q311 **Chair:** Andy, on that point, presumably the reason the Government have done it is the problems with tax credits: you have this long period of time in which you were given the entitlement on previous income and then, at the end of the period, it was realised you didn't qualify so there were big bills. How can you get around that?

Andy Chamberlain: You had to pay it back. One way that you might begin to get around it is through the new Making Tax Digital system that is coming in next year for a lot of people. However, the Chancellor announced in the Budget that he would raise the threshold, so it may be delayed for a year for many of this population. That is going to require people to report quarterly, so you could tie in with that. You could even precede it, I suppose. To get people used to the idea of reporting for tax quarterly, you could move it to a quarterly basis. That would at least give that bit more flexibility.

I can see that the annual basis can cause problems. I know there have been a lot of problems with people having to repay tax credits. It is tremendously difficult, a huge administration nightmare and very difficult for the individuals involved. We wouldn't want to get to that, but some flexibility in the system is needed because self-employment is a flexible entity. Income doesn't come in regularly. That is just the way it is. If Universal Credit is going to meet that, it has to show some means to adapt to it.

Matt Dooley: On the tax credits issue, I think there are two things that could be done. First, you could ensure that this customer group has access to specialist support. That is a massive plus point that could be had in this region. That is one of the reasons why you have so many customers that are on tax credits, because they have gone self-employed without that specialist support. Our training is very intensive and prepares. Our specialist advisers have the power to say no to a customer, "We don't think that business is viable. We don't think you are suitable. We don't think you should be borrowing a loan at this stage", whereas a work coach or a job coach might not have had that experience and has allowed that customer to go off and be self-employed. The customer has got into trouble and then that has led to a higher tax credit bill. I think that is one thing to consider.

The second thing is: the Universal Credit policy has already addressed a lot of those issues. It is a lot more stringent: the gateway interview, the customers have to pass monthly reporting, and it is quite burdensome. There are lot of things there to make sure the customer is on track. However, with that minimum income floor, I think it has gone a bit too far in that it is going to end up penalising the genuine people who have a chance. As I mentioned before, there is a lot of research that says people still need help with benefits, albeit reduced into year 2, but end up being a sustainable, profitable business, employing people and taking on apprenticeships. It is that 12-month criterion that is causing issues. Only 35% of our customers are now getting there, as opposed to our 30 years of history where normally 70% get there. That is a huge drop-off point.

Q312 **Royston Smith:** We have touched a bit on the Enterprise Allowance already. Are there any reforms that you could recommend to the NEA or in fact any other Jobcentre Plus contracted-out support for self-employed people? Perhaps starting with Matt and then Sam.

Matt Dooley: Yes. We welcomed the recent changes on NEA. NEA phase 2 is due to kick off in a couple of weeks' time. We think it is a much better scheme this time around. The team consulted with all the providers, which was fantastic, and really listened to our feedback. It is a slightly longer programme this time. There is more intensive support for the customer. They have put in additional mandatory meetings, which is great because you can get more support to that customer. In general, we welcome the changes made to NEA phase 2.

Payment by results has been linked to the minimum income floor. That is a huge concern for providers, which we flagged at the time: 40% of the payment is getting customers to that MIF, which we think is unsustainable and unachievable and a risk to that contract. We would like that to be reviewed so that it is more in line with the Universal Credit policy. I think it is a good scheme, but I think that payment by results bit with the MIF needs some review. As for the other employment schemes, I think there is a wider challenge there with the lack of support.

The example is the Work Programme. You look back at when it was commissioned, the black box approach. We have always had a self-employment provision in our company, so it was natural that we would include that in our tender but, as we know, most providers—35/36 out of 39—didn't include that. Therefore, there is a huge cohort of customers that don't have access to that support, so I think that could be something else that could be looked at as well.

Sam Windett: I obviously agree that the NEA has been broadly successful, and we look forward to seeing how the new contracts will work under Universal Credit.

To take the issue of the other contracted-out support, Matt did touch on it. Under the Work Programme you had the black box, so you could help people into employment in whichever way you deemed was best for them. Self-employment did feature as part of that. Now, with the end of Work Programme, the end of Work Choice this year, you have the Work and Health Programme coming in later on this year, which is 20% of the size of the previous provision. If you think about the access that people have to this kind of specialist support, it is dropping dramatically. Even if the providers who did provide self-employment in the Work Programme go through to deliver the Work and Health Programme, the actual size of the provision is so much smaller. The numbers, the demand will far outweigh the actual supply of that provision.

The concern is we have this great opportunity with the Work, Health and Disability Green Paper, which is aiming to look at people sitting there without support. The vast majority are going to be sitting on the Jobcentre Plus regime without any specialist support. You can look at ESA claimants or the UC equivalent. The research says 52% of ESA claimants want to work. That is a whole pool of people that could potentially benefit from having some kind of specialist provision. Self-employment might not be right for all of them. That might not be the answer but it should be one of the routes that are considered. At the moment, that is not even touching a lot of the people that it could help.

Andy Chamberlain: Like the other panellists, we think that NEA seems to have been a big success. We are very supportive of it. According to the Mone review, it resulted in over 70,000 people going into self-employment; 8,500 of those are people with disabilities. It seems like it is doing quite a good thing and working quite well. Our only concern is that it could reach even more people and perhaps, with better signposting in Jobcentres and via work coaches, it could be rolled out even further, again, coupling that with: you need to have good support and advice to back it up, as Sam was just saying.

There is a concern that that is going to be reduced. As Sam said, and as I said earlier, you don't want to be in a situation where people are just shoved into it, "We don't know what else to do with you. Go and be self-employed. Here is the NEA, off you go". That is a slight concern. You need to have the advice there and someone considering, "Is this the right thing for you?" If you do have that advice and someone making sure it is right for you, I think it can be very successful and it has been.

Q313 **Chair:** Andy, given the restrictions on budgets, where would you take money from to build up the new Enterprise Allowance Scheme in the way you are suggesting?

Andy Chamberlain: That is a tricky question. I don't want to sit here and say, "Yes, we need this and we need that. It is quite obvious that we should have this and there should be a self-employed adviser in every Jobcentre". In an ideal world, that would be the way it is, but I do understand that we are constrained by budgets. I haven't given consideration to how it would be paid for. I just note that it would be good if it could be. It could result in long-term benefit to the Exchequer, because these businesses could go on and become successful, get off benefits altogether and make a contribution via the tax system.

Q314 **Chair:** I think you have convinced us of that for our report. We are looking for recommendations all the time. If you could write in to us with ideas where the budget could be reallocated, because I don't think it is on the cards to say yet more and more money. Sam, what do you want to say?

Sam Windett: I would just qualify about the funding. The ESA WRAG money, for example, the £100 million, a lot of that is going into the Jobcentre Plus regime. That is the money that I would identify that should be spent on the specialist support. I think that is where, if you are looking at short term—

Q315 **Chair:** What, through your work coaches commissioning additional support?

Sam Windett: I think it needs to be balanced out. There needs to be a balance between the money going into Jobcentre and the money that is going to specialist provision. At the moment, all the Department is looking at is putting the money into Jobcentre, when all the advice that they have been getting and the expert reference groups have been saying the opposite. I would say that is one area.

Q316 **Chair:** It could go into the Department, but the Department could say, "It should be spent in this way". If we imagine we are the Secretary of State, you just need schemes. You cannot deal with Croydon and Birkenhead individually; you have to have it applied to the nation. You could say that the money goes into Jobcentre Plus but they have to use it in this way, buying in specialist services. That would enhance the work coach, wouldn't it?

Sam Windett: Then you would have it in either a scheme or a flexible support fund, something like that, and you would mandate the coaches to spend the entire flexible support fund. Because there has been an enormous—millions—underspend on that in previous years so I think the money could be spent. I would say that maybe not in the short term but in the medium term we have to revisit the DEL-AME switch. Getting people off benefits saves money for the Treasury in the longer term and in the quite short and medium term as well. You are not spending the benefits that somebody is getting. They are contributing to the economy and to local growth. They might be hiring people.

The DEL-AME switch argument has gone out the window and we have to wonder why that is the case, especially when we are looking at a future labour market. In areas where there used to be manufacturing jobs and there used to be other jobs, self-employment is a very good route for that. I wonder why that argument has disappeared in the last couple of years.

Matt Dooley: Just on NEA, it is currently capped as well, so I agree with the comments made earlier. It could be servicing a lot more customers, not only if it was marketed better in the Jobcentres but there is a cap so, even if the demand is there, you have to come back from that a little bit.

A couple of practical ideas: could NEA be opened up to a wider customer group? I think that is feasible. The second option would be to have a stand-alone self-employment contract, so that bigger cohort of customers has the guarantee of specialist service. As for how that could be paid for, the line I would say is that 15% of the UK is self-employed. It is no different with this sector that could and should be self-employed. I think you can save on the budget in terms of that tax credit budget will be reduced. In general, the unemployment budget will be reduced when the self-employed go self-employed. Also, looking at the wider employment budget, like I said, 15% of that should be allocated to self-employment.

Q317 **Heidi Allen:** I was just pondering that everything we are talking about seems to be fixes for the fact that work coaches don't really have the skills to support a self-employed person. Given that self-employment—in whatever guise it is—is getting bigger and bigger, is there an argument to have almost a different department within each Jobcentre, even if it is just one or two individuals, and that is where you go for self-employment? Sure, they have knowledge on Universal Credit and so on, but it is a completely separate part of it. Is there mileage in that? Andy, shall we start with you?

Andy Chamberlain: Yes. There used to be something called a self-employment adviser that was in some Jobcentres, I think. That has disappeared and I am not sure why, but something like that coming back we think could be a good idea. Again, there are budget issues, aren't there?

The other option may be just retraining the staff that are there. But then, as Sam said, there is so much that they already have to deal with and so little time that they have with each customer. Any way you look at it, it is either spend a bit more money and get more resource or stretch the existing staff even further, so there is a downside everywhere. But, ultimately, yes, I agree, 15% of the labour market is now self-employed. It has risen hugely. I think in the ONS stats that came out last week, it showed that in the last quarter, more self-employed jobs have been created than employment jobs. At the same time, it showed that we have the lowest unemployment for 32 years. Our labour market is currently very much reliant on these self-employed people. I think there is an argument to say that they are getting of a sufficient size that you are going to want to target more resource specifically at them.

Q318 **Chair:** Andy, do you think a generalist, who has experience of self-employment, is the right answer or are you really advocating the medical model? You go and see your GP. Your GP can often help you with lots of things but sometimes he sends you on to a specialist. Nobody thinks that is wrong.

Andy Chamberlain: No, I don't think that that is wrong at all. I think that may be the way to go. As I say, some sort of self-employment adviser, whether they are in the Jobcentre or perhaps they are something outside, but signposting to someone who can really help is obviously going to be better than having just someone there who knows a little bit and won't be able to do much.

Q319 **Heidi Allen:** It just feels like double-handling to me. I was a self-employed person. If that was my business—the Jobcentre Plus in Birkenhead—and 15% of the customers that were coming through the door were looking to be self-employed, I would make sure my staffing reflected that. I would have 15% of my Jobcentre staff as self-employed experts. It does not mean more staffing. It does not mean extra budget. It just means retraining a bunch of them.

Sam Windett: Yes, absolutely. I think there are a couple of things here. Self-employment hasn't been a big issue for the DWP, so it has not been—

Q320 **Chair:** If you are successfully self-employed, would you want to work in Jobcentre Plus?

Sam Windett: I was just about to say, there is a flipside, and does somebody who is starting up their own business want to go back into Jobcentre? There is this, "Is Jobcentre for me? Is it the right place?" At the moment, let's be quite frank here, I would rather that they skill up for the Youth Obligation coming in next month. They have their estates change. They have Universal Credit rolling out. They have so many things. Is enterprise going to be top of the bill? In all honesty, I don't think it will. I don't think it will and I think we have to be quite practical about what is happening over the one or two years.

In an ideal world, if you had a Jobcentre like a shopping mall, where you had all the generalists and all the specialists who could operate, who could also be external or internal specialists that would be great. But I think that, with everything that they are going to have to cope with over the next year, putting that in I don't think it will rise to the top enough to help the people it needs to.

Matt Dooley: Speaking as a former business adviser myself, who started in this sector nine years ago, 90% of the business advisers that work for us have been self-employed before. We think that is a key attribute to being able to deliver that advice. You have that empathy, you have that knowledge, and you have the T-shirt. Interestingly, you talk about 15%. At the peak of the Work Programme we had 130 business advisers. That was circa 15% of our workforce, so we recognised that 15% of our customers could and would be self-employed and we reflected that in our staff. It was a very, very different service. It was an internal referral over to a specialist business adviser. Quite often we would take them offsite—certainly not to the Jobcentre—and we would work with them as an entrepreneur starting a business. There is so much involved in that journey: there is the confidence and the motivation to deal with matters at the front, there is the market research, there is the business planning, pricing, social media. It is very, very in-depth.

Q321 **Chair:** When you said you move them offsite, Matt, did you move them into self-employed businesses?

Matt Dooley: Yes, we would go and see them at their premises. We would go and see them at incubators. We would take them for a coffee, because you want to take them out of their environment. I am not sure in the Jobcentre is 100% conducive to supporting that.

Heidi Allen: It isn't that dynamic, is it?

Matt Dooley: I agree with the premise that 15% of the staff should be specialists or contracted out to specialist support to service that customer group, because it is proven to work. The demand is there, and the demand for self-employment is rising. There are so many reasons for that—technology, lifestyles—and it is here to stay. I think it does need looking at, but it is a specialist service and it needs to be specialist. A lot of our staff, they do it for the love of starting a business. Quite often a lot of them are ex-company directors, ex-entrepreneurs themselves and they want to pass on that knowledge to this customer group, so it is a different kettle of fish.

Chair: Great, thank you very much. And you will come back with that information about how can we support specialist staff within the existing budgets.

Sam Windett: Yes, where is the money coming from?

Chair: And if you could do that soon.

Sam Windett: Yes.

Chair: Thank you very much for the session.

Examination of Witnesses

Witnesses: Stuart Adam, Benedict Dellot, Nigel Keohane and Victoria Todd.

Q322 **Chair:** Welcome. Most of you heard how we begin this session. I ask you please to identify yourselves in turn, for the record, and then Karen will begin the questioning. Can we start with you, Stuart?

Stuart Adam: I am Stuart Adam. I am a Senior Research Economist at the Institute for Fiscal Studies.

Benedict Dellot: My name is Benedict Dellot. I am the Associate Director of Economics at the RSA.

Victoria Todd: Hi, I am Victoria Todd. I am the Senior Technical Manager for the Low Incomes Tax Reform Group, which is an initiative of the Chartered Institute of Taxation, to give a voice to unrepresented taxpayers.

Nigel Keohane: Hello, I am Nigel Keohane. I am the Research Director at the Social Market Foundation.

Q323 **Ms Buck:** Thank you very much. I think you were all here for the first panel, so I want to start off by picking up some of the discussion we were having about the big picture. What underpins the growth in the self-employment figures in recent years, in your view? Perhaps you could also help us understand a little bit about where we are at in terms of the definition of self-employed. You may have heard me ask whether we need to understand better the distinction between self-employment as an entrepreneurial activity and the setting up of a business, and self-employment as people who are working individually in a contract relationship with another employer, in the sense we have come to understand the gig economy. Could you tell us a little bit about your understanding of how helpful those definitions are?

Benedict Dellot: In terms of the broader question around why we are seeing a big increase in self-employment—

Chair: Benedict, might you speak up?

Benedict Dellot: Yes. In terms of the question about why we are seeing a big increase in self-employment, if we go back to the period of, say, 2012-13, we were having a similar debate. The theory at that time was that it was the result of the economic downturn. As a result of the recession, more people moved into self-employment because they couldn't find jobs elsewhere. We did a survey at that time with Populus and we found that, of those who had started in business in the previous five years, about 27% did so to escape unemployment. That is a big proportion but it also leaves a majority who didn't, and they did so for more benign, positive reasons. Fast-forward to the present day and the focus—

Q324 **Chair:** Benedict, hold on. Don't you think it is a noble reason to start self-employment, to escape unemployment? It may not end up happily.

Benedict Dellot: Yes, but I think it is important that we understand—

Chair: It tells you something about the person, doesn't it?

Benedict Dellot: Absolutely. I think we should value all forms of self-employment, but it is important to understand what is driving it. If we fast-forward to the present day, it seems that the focus at the moment is on the rise of gig economy platforms. We know a lot about Uber, Deliveroo, TaskRabbit and others. Then, associated with that, there is the assumption that we have a lot of employers who are engaging in quite unscrupulous practices: engaging their workers on a self-employed basis when they should be engaging them as an employee. Why do they do that? The theory is that they want to escape things like paying employer national insurance and all the other protections that they have to cover usually for employees, such as sick pay and holiday pay. I think that both of those are important factors: the rise of gig economy platforms and unscrupulous behaviour by employers.

We are doing our own research at the moment on gig economy platforms and we find that about 3% of all people have engaged in gig work in the past 12 months. This is a significant proportion, if you think about the fact that these gig economy platforms did not exist five or six years ago.

Q325 **Ms Buck:** Just underneath that, are you looking at those figures in the same way that you looked at the figures in respect of self-employment as an alternative to unemployment? You have the 3% figure of all employees, but we also need to understand what those figures represent as a proportion of potential jobseekers.

Benedict Dellot: Yes. In terms of the definition of gig work that we used, it was finding work through an online platform, essentially. It covers the likes of Uber and Deliveroo, which we see a lot and talk a lot about in the media. It also includes freelance platforms like Upwork and Fiverr, which some of you may know of. So, the 3% figure relates to people who have engaged in those kinds of platforms in the last 12 months.

Q326 **Chair:** It is 3%, isn't it, of the self-employment total, not of total employment?

Benedict Dellot: No, it is total workforce.

Chair: The entire workforce?

Benedict Dellot: Yes.

Chair: I have read your report, but I had it the other way around, sorry.

Ms Buck: We need to break that down.

Q327 **Chair:** It is much bigger then, isn't it?

Benedict Dellot: Yes. We can send you the report once it is published, which will be in the next couple of weeks. In terms of more specific figures, we find that about 59% of that 3% are delivering professional services—so using things like Fiverr and Upwork—and that 33% are delivering skilled manual services and that about 16% are delivering driving and delivery services. That is quite interesting, because we tend to focus on the likes of Uber and Deliveroo as the main form of gig economy activity, but what our research shows is that this is not the bulk of the activity that we are dealing with here.

Q328 **Chair:** Benedict, what is your estimate on future growth in these particular areas?

Benedict Dellot: It is anyone's guess, really. There are certain sectors where you can see gig economy activity of that kind growing, for example, in medicine, tutoring, entertainment and personal services. Yes, we cannot say for certain but, in terms of the self-employed community as a whole, we think it probably will continue to rise. If I can talk about three major factors that are driving this self-employment boom in general, one is attitudinal changes, so people wanting to work for themselves, people wanting more autonomy and people wanting more meaning from their work. The second is around technology. It is a bit of a cliché factor but it is true. Technology has sent the cost of doing business into freefall. The third, and perhaps the most important, is demographic changes. What we are seeing is an ageing population. That means more people who are over the age of 65, and also healthier people who are over the age of 65, who want to work for themselves, do something interesting and top up their income, and self-employment is often the ideal vehicle for that.

Nigel Keohane: Just to pick up on Benedict's points, I think that issue of an ageing workforce is very important. There is a study by the ONS looking at inflows into self-employment and outflows. What that shows is that among older people the outflows from self-employment are slowing down. You have more people staying in self-employment and they tend to be maybe doing fewer hours, so older people essentially phasing in their retirement rather than switching.

On the crisis and its effects, many people said it was a positive factor that we had a flexible labour market. There was a significant uplift in the number of self-employed people in the construction sector after the crisis. Broadly speaking, there is a much longer-term trend from, say, the 1980s to where we are now, going from 10% of the workforce up to 15%. The crisis and the financial crash and the economic downturn had an effect, but the long-term story is much more important.

It is very hard to understand the extent to which the differences in tax and regulation affect employer decisions, but we should certainly be aware of the magnitude of those and also the fact that, broadly speaking, we have an employment policy that is really set up for people working for an employer rather than the self-employed.

To quickly go through the significant differences, we have the issue obviously about the employee national insurance contributions, which we have heard a lot about recently. We have very significant employer national insurance contributions at nearly 14%, and the differences that Benedict mentioned in terms of statutory sick pay, and then we also have regulation and the national living wage.

Chair: Nigel, we will come back to the differences and how the Chancellor is going to help a bit later on.

Q329 **Ms Buck:** I would like to hear Stuart's perspective.

Stuart Adam: I don't have a huge amount to add to what has just been said. Coming from a tax background, one distinction that I would particularly make, which I think is worth having in the back of our minds all the time, is the distinction between being self-employed and running an owner-managed company. There are far more people who are self-employed than running an owner-managed company, but, in terms of what the trends have been, there is a little bit of a difference because there is a long-term rise in self-employment but it has not been uniformly upward. That is something we have seen in the last few years. The rise in the number of people running their own companies goes back to at least 1991 and there has been a fairly steady, uniform rise. There is not much sign of it increasing but, in terms of the percentage growth, that is the faster growth but it is also steadier long term. The increase in absolute numbers is bigger in the self-employed recently because there are a lot more of them.

Ms Karen Buck: That is helpful.

Q330 **Heidi Allen:** I think most of you were here in the first session where we were talking about this issue of how Universal Credit interacts with self-employed people and whether it supports them and the minimum income floor. Do you think it works? Would you change it? What we heard in the first session was that it does not work at all. Shall we start with Nigel, perhaps, and move on?

Nigel Keohane: I think there are two logical reasons for having the minimum income floor, which one has to recognise even if one does not agree with them. The first one is the fear of fraud. Generally, when people are paid by the employer, the Government are able to track that much better.

Chair: We hope.

Nigel Keohane: We hope, yes, indeed. The Government are essentially worried that people will misreport their income and/or misreport their hours. That seems to me the fundamental issue. One either has to say, "We are ready to live with fraud," or, "We are going to find a way of managing that fraud," or you have to accept you have to have some way of addressing that. There is another potential policy—

Q331 **Chair:** How does the minimum floor address that, Nigel?

Nigel Keohane: The minimum floor essentially says we are going to assume that, if you are self-employed, you are earning the national minimum wage for the 35 to 37 hours a week. It does not allow people to claim anything if they are self-employed. It does it in a very crude way, but I suppose the alternative would be to say, "Okay, I am self-employed". "Nigel, how many hours a week are you working?" "I am working 20 hours a week." "What is your income?" "It is £100 so I need a very significant top-up." There are very few ways of determining whether the hours that I am reporting, perhaps even the income I am reporting, especially at that moment in time, are correct because the whole point of

Universal Credit is it is meant to be paid on a monthly basis based on real-time information. It seems to me that the floor derives from this concern about fraud.

There may be another reason for having it. The Government may be also saying to people, "If you are working 30 hours and you are only getting £100 of income, maybe you should not be doing what you are doing. Maybe you should be trying to seek different self-employed work or maybe even looking for employed work". With both of those—especially the first one—it seems to me that one has to get round this issue about misreporting. The second one is certainly challengeable because, ultimately, it may well be better to have people in even very low-remunerated self-employed work than unemployed.

It is worth reflecting on the population we are talking about. We heard a bit about the diversity of the group, but we did some work looking at the hourly rates of pay for people in self-employment and we came out with a figure of 45% for the people in self-employment who are paid below the hourly equivalent of the national living wage.

Q332 **Chair:** Does that account for the period of time they have been in self-employment, though, if we break it down to those who worked during their first 12 months and those post-12 months or post-two years?

Nigel Keohane: No, it is a snapshot. You will have people who have entered and you will have people who have been in for a long time. A lot of our study looked at what happened to them over a 12 or 15-month period. That is, did they increase their earnings? Naturally, a lot of them did not.

I think there is a very significant challenge here on Universal Credit. At the very least, we need to make sure at this stage that we get the policy right on those people who are coming off the legacy system of tax credits over to Universal Credit, because Universal Credit is meant to have a 12-month period when this minimum income floor does not kick in. You would want to definitely make sure that people who are switching from the legacy system to Universal Credit have that advantage.

Q333 **Chair:** Would you change that rule anyway? Sorry, Heidi.

Heidi Allen: I was just about to ask the same question about what you would do. Do you have any suggestions for change, either for the mechanism of the minimum floor or for that one-year period?

Nigel Keohane: I don't have any fundamental suggestions. What one could look at are ways of allowing people to report their income in a very timely way and maybe instituting some checks on that. Essentially, you could say, "We are ready to tolerate the threat of some fraud" and reduce the threshold a bit. That seems to me to be a reasonable approach. In the longer term we may have more self-employed people paid by digital transfers rather than by cash, so the more that we move away from cash to digital, the more the Government may be able to track payments and, therefore, be more confident about what is going on.

Victoria Todd: One of the things you talked about in the previous session, around the reason for the minimum income floor, was to do with what has been described as a loophole in the tax credit system. We would disagree to some extent that that was really a loophole. In the early years of tax credits, HMRC certainly operated on a pay now, check later approach. Since April 2015, they have introduced a commercial test for self-employed in tax credits. They are doing that test upfront and then at various points of the claim. That has identified some of these people who were claiming for long periods but declaring zero income. It is just to clarify that.

On the minimum income floor, if we accept that it is not a good policy to support it in the longer term, that is a small group of people. The problem with the minimum income floor is it takes a very broad-brush approach to target that smaller group of people. What that means is that, for the self-employed who have fluctuating incomes, the minimum income floor can be really harsh. Some of the examples we put in our written submission showed that, out of an employed person and a self-employed person who had the same annual income, the self-employed person could end up with £2,500 less Universal Credit over 12 months. That is because of the minimum income floor and their fluctuating income.

The other area where it hits hard is if you have big business expenses in one particular month. Again, another example we showed was somebody who had an insurance premium to pay in one month. Because they were paying the premium in one go rather than across the year, they lost £600 of Universal Credit. The minimum income floor is also affecting those people.

Looking at who the minimum income floor is applied to, it is people who pass the gainful self-employment test. To pass the gainful self-employment test, you have to demonstrate a number of things. The DWP guidance talks about the things they will check. That is things like marketing activity, business plans, adverts, websites, volume of work, whether the person is progressing the business. They will check all of those things and only if the person is doing all of those things will they pass the gainful self-employment test and then have the minimum income floor applied. For me, it is that broad approach to target a smaller number of people.

Q334 **Heidi Allen:** Can I ask a little supplementary question? Do you think it is widely understood by work coaches and jobcentres in general that a self-employed person bouncing along in Universal Credit could end up receiving far less benefits, or are people still finding this out because Universal Credit is still new? Do you think it is widely recognised?

Victoria Todd: Certainly, from our perspective, we have not really seen a lot of people yet because the numbers of self-employed people in the UC system are quite small. In terms of discussions as policy was developing and comments we have had from claimants, I don't think there is a great understanding of how this works.

Benedict Dellot: Yes, it is just a very complicated system. Even for people who are looking at this day in, day out it is quite difficult to get a full grasp of it. Just to echo those comments, there is a rationale for the minimum income floor but it really does disadvantage people with volatile income. To give you a sense of what that means in practice, we did a case study of two people who earn exactly the same amount over a year: £15,000. Person A earns that through regular monthly payments. Person B earns it through irregular monthly payments alternating between something like £1,650 one month, £850 the next. Person A is better off over the course of the year by something like £600, yet they earn exactly the same amount over those 12 months. That is not a fair system, so we have to do something about that.

Stuart Adam: In terms of a rationale for a minimum income floor, in very big picture conceptual terms there is always a trade-off between wanting to provide support for those people with low incomes who are struggling but wanting also to not trap them in that position, and to provide them the incentives to increase their income and so on. One way you can deal with that trade-off is basically just to be fairly harsh on people with low incomes, but then you have to say, "Why would you do it?" You could have a minimum income floor for employees. It would also stop them languishing on tax credits for too long and so on. Why don't we do that? What is different about the self-employed, to put it another way? The only reason that I can think of to treat the self-employed differently in that respect is the question of the difficulty of monitoring their incomes.

You have a trade-off that is, to some extent, inescapable between not wanting to penalise low-paid self-employed people any more than we penalise low-paid employees, but wanting to recognise that the greater difficulty of monitoring their incomes might justify doing something about it. Neither extreme on that trade-off seems particularly palatable, so I think there is a question as to what you can do to find a middle ground there. The Government are doing one thing by having a 12-month start-up period and that is one possible answer. That is to say, "For the first 12 months we think it is quite reasonable that it takes time for a business to become profitable and we give you a reasonable amount of time to make that effort. Thereafter, we are going to say that if you are not able to make enough income out of this, you are not going to continue this at the taxpayers' expense".

There is then a question of how you could adjust that trade-off. In principle, there are several possible things that you could do, and this is mainly a brainstorm. I am not going to claim to have thought through all of the implications of these fully. One obvious thing is you can just change the length of the 12-month period. You could make it longer or, indeed, shorter. The second possibility is you could give some discretion in applying it: the discussion you were having with the previous panel in terms of whether the resources and the expertise are there to properly apply that discretion. You could phase it in gradually. Rather than a minimum income floor just kicking in after 12 months, you could say it kicks in at a certain level and then the level gradually ratchets up over time. Perhaps as technology advances, you could put more effort into being able to monitor self-employed income so that there is less of this problem although, frankly, dealing with pure cash in hand is quite hard.

You could try to deal with the volatility issue, which I think is a very big problem, by, for example, saying that for the purposes of the minimum income floor—unlike for Universal Credit as a whole—you could use a 12-month rolling average of their income rather than just assessing it on their income in a particular month. Also, rather than having just a gainful self-employment test, you could say, "If you are in self-employment, we will not impose any conditionality on you, but we will impose a minimum income floor." Under those conditions they could say, "Okay, I am doing some work in self-employment and I am making a bit of income. I recognise it is not enough as defined by the Government and, therefore, I am going to take on more of the obligations associated with people who are unemployed or that the Government can impose on people who are in work but earning 'not enough' and do that alongside self-employment."

To think of that another way, if I were purely unemployed and claiming Universal Credit on that basis, and if I wanted to start some self-employment work that I knew would not be enough to take me above the minimum income floor but would be better than nothing, it is not obvious to me that you should say, "In that case, we are now going to apply a minimum income floor to you but stop you having to do anything else. So, fine, do that alongside it. It is a good start but carry on looking for something more alongside it". That is another area that could be finessed.

There are lots of possibilities there. As I say, I don't claim to have thought through all of them and in most cases they have a disadvantage of making the system even more complicated. That I think is the area where the trade-off is there to be made.

Q335 **Chair:** The next question to all of you is in two parts. First, do you know what proportion of the self-employed last for long periods of time on tax credits? Secondly, of your experience of the working of Universal Credit, is it in a robust enough condition to take serious adjustments that you are all advocating about how the income of the self-employed should be dealt with?

Victoria Todd: On the first question, I am not aware of any figures in relation to the self-employed on tax credits. When the loophole was talked about during the debate, we had certainly not seen any evidence that backs up how many people were in that position on tax credits. As I said before, the tests were there within tax credits to pull some of those people out of the system anyway.

On the second question, Universal Credit still has a long way to go. Daily I hear of teething problems from advisers with how things are working. I think you would have to be cautious before you introduced any big changes, but I absolutely think some of the things that Stuart has just been mentioning could be done are necessary, if we are going to support the self-employed and changes around the MIF, the main one being the averaging of incomes.

Q336 **Chair:** Have you ever talked to the Department about them being able to change Universal Credit's IT so they could do that?

Victoria Todd: Our conversations have not developed because, at the minute, there is not really a willingness to talk about the policy around the MIF, so no.

Chair: Right, that is very clear. Nigel?

Nigel Keohane: We did some work estimating how many people might be affected by it.

Chair: Affected by what?

Nigel Keohane: Sorry, affected by the minimum income floor. We found that 500,000 households with an individual whose main job is in self-employment are on the in-work benefit tax credit. We estimated that just under 200,000 would lose out under Universal Credit—that is, they would have less benefit income than they had when they were on the current system. There are quite a few issues here. One is your actual income over the year and the other is this issue about volatility. Getting to the actual figure would be very hard. That was a first go at it. Either way it is a significant number of people who could be affected.

Benedict Dellot: I agree with a lot of the suggestions that Stuart put forward. I also get his general point that trying to tweak an already complicated system may just make it more complicated. However, there is one suggestion, which is extending the start-up period to 24 months. That seems quite sensible because as it stands, during the 12 months, if you are self-employed and you are applying for Universal Credit, you still have to go to the jobcentre and prove that your business is in pursuit of profit. Presumably, that would still apply if you extended it to 24 months.

Our research differs somewhat from the SMF's, but what we find is that earnings do increase over time if you are in self-employment. We are looking at the Understanding Society survey, which tracks the same self-employed people over time. What we find is that those who last up to three years or more can earn twice as much as those who are in their first year of business. This comes back to a fundamental point: the way that Universal Credit exists right now, it may serve to sink businesses that may become viable in time, and we don't want to have that situation. We should be conceiving of Universal Credit as a springboard as well as a safety net, and balancing that would be important.

Q337 **Chair:** Stuart, from your knowledge, do you think the IT of Universal Credit is up to taking any of your reforms?

Stuart Adam: The short answer is I don't know. I don't know enough about that. I have not had the conversation with the Department. I am aware that getting the IT working on Universal Credit has not exactly been problem free so far.

To add on to something that Benedict was saying, in terms of extending the start-up period, one way to think about this is there is a kind of empirical question as to how long you want to give someone to say, "Your self-employed business is going to be viable," before we say, "Okay, it is time for you to either decide you can just live with a low income or find something else". There is an empirical question there as to how long it takes for businesses to become profitable, but I am not aware—at least off the top of my head—of any data about that. I don't know the answer, but that is one way of thinking about the question.

Q338 **Luke Hall:** Following the introduction of the new state pension, can you draw out for us the remaining disparities between self-employed people and employed people in terms of access to benefits and how this should be addressed, and specifically its potential implications for national insurance?

Stuart Adam: In terms of benefits that have some link to national insurance—actual, perceived or historical—there is now very little difference left. One is contributory jobseeker's allowance, which is not available to the self-employed, although income-based jobseeker's allowance is. Again, in terms of the actual amount of money involved, it can be important for some people. If you look at the total amount that is spent on X employees for contributory jobseeker's allowance, it is small. If you then say, "How many self-employed people are there who would not be able to get an equivalent amount through income-based anyway?" it is very small numbers in revenue terms.

The other one is statutory parental benefits. Statutory maternity pay is only available to employees, although you have to bear in mind that maternity allowance is available to the self-employed and is just as generous after the first six weeks. Statutory maternity pay is more generous than maternity allowance for the first six weeks after having a child, and there is a difference. With statutory paternity pay there is no equivalent for self-employed but, again, you can only get that for two weeks. We are talking about very small differences.

In terms of the parental benefits, the Chancellor has said that that is something he wants to look at equalising. Again, I have not looked at this in detail. I can imagine that there might be some obstacles. I don't imagine that there would be major obstacles to levelling that out somewhat.

On contributory jobseeker's allowance, I think it is somewhat harder to see quite how you would do that. Again, my view is that you should level these out as far as you can, but those remaining differences are very small, whether you compare those with the differences as they were historically when there were big differences in pension entitlements and so on; or whether you compare them with the differences in tax rules that they get; or—this is possibly crucially for today's discussion—whether you compare them with overwhelmingly the biggest difference, which is the minimum income floor in Universal Credit. That is not something that is related to national insurance and contributory entitlements, but it absolutely dwarfs the others in that. The latest estimate published by the OBR is that the introduction of the minimum income floor will reduce Universal Credit spending by £1.5 billion relative to where it otherwise would have been. The other things I am talking about may be tens of millions. It is just orders of magnitude bigger.

Q339 **Chair:** The big prize is about the access to state pension, isn't it?

Stuart Adam: Yes, but that has essentially been levelled out now for future withdrawals. With the rollout of the single-tier pension starting in April 2016, the self-employed accrue rights in just the same way as employees do.

Q340 **Chair:** Has the IFS done any calculation on the capital sums that the self-employed would have to accrue to buy a pension equal to the new state pension?

Stuart Adam: Not that I know of. It may be possible to do that. It is not one I have thought of.

Q341 **Chair:** Might you have a go at it?

Stuart Adam: I can certainly see whether it is possible.

Q342 **Chair:** That would be really good. This debate about the national insurance increases is clearly going to come back, quite rightly.

Benedict Dellot: Yes, I think it is worth thinking about protections in three senses. You have your contributory based benefits that Stuart has just mentioned, self-employed lacking access to statutory maternity pay, paternity pay and adoption allowance and pay as well. Secondly, there are the means-tested benefits—in other words, Universal Credit—which we have talked about and I don't think it gets enough attention. We focus a lot on statutory maternity pay. I don't think we focus much on Universal Credit.

There is a third area that I think is the knottiest to solve. That is the protections that are given by employers that are not refunded by the state, so not even dealt with in the tax benefit system. We are talking about things like sick pay. We are talking about things like employer pension contributions and holiday pay. How we solve that is much harder to address.

In terms of the future of national insurance, we are all trying to scramble around and think about what is happening now and what the case is going to be in the next couple of years. One option going forward is to have a national insurance top-up system. If you are self-employed and you want to have access to things like the full statutory maternity pay and paternity pay, you may be able to top up your national insurance to receive those entitlements. I can see a number of issues with that, one being that you create a two-tier welfare system and, secondly, it relies on people having a lot of foresight about the issues that they may face in the future.

Victoria Todd: I don't have a lot to add to the bigger issues, but one point that I want to flag up around disparity is to do with the changes and the abolition of class 2 for the self-employed. In April 2018 it will be the class 4 contributions that establish entitlement to benefits. One area that we are very concerned about is there has been a levelling between the self-employed and the employed, in terms of the small profits limit in class 4 to the lower profits limit. It will be the 0%, so effectively you will get credits if you have profit between those two levels.

If your profit is below the small profits limit, then you would need to pay class 3 contributions, which at £14.10 a week currently is a lot more than the £2.80 class 2. Again, that is the same as the employed. Employed people below £112 a week would similarly have to pay at class 3. The difference is that for the self-employed, if their profit is just under that level for the year, they would have to pay 52 weeks to make a qualifying year for the state pension, which is about £733 to get that qualifying year for their pension; whereas an employed person could have 48 weeks of employment where they are getting credits and they would only need to pay four weeks at class 3 to make that a qualifying year. We are concerned about that disparity.

There are a number of things you could do. One of the options we have put forward is to have a second class 3 amount for the self-employed that is lower in order to reflect this difference. That is definitely an area we are worried about.

Q343 **Craig Mackinlay:** I will just come in there, if I may. I think you have found the little secret that dare not speak its name. On class 2, you are almost saying, "We will have a new class 3. Why don't we just call it class 2 and continue where we once were?" You have highlighted what I think is going to be a major problem, in that in 20 years' time people may have been skating just below the class 4 threshold so they will have paid no class 4; whereas the system used to chase them for class 2 to make sure that you are paying your contributions, there is no system to chase class 3. It is a voluntary thing that you have to make a decision yourself. I am very worried that in 20 years' time we will have an army of what have been fairly low-paid self-employed people expecting their state pension and being told, "Sorry, you have not built up entitlement". I am concerned about this and I am not sure this has been thoroughly thought through.

Victoria Todd: From the individual's perspective on a very low income, they may well be in the UC system having a minimum income floor applied, so £733 is a lot of money. Just to throw in a point that I did not get to mention before about the minimum income floor, another one of the disparities between the employed and self-employed is around pension contributions. The minimum income floor does not take into account pension contributions. If you are a self-employed person and you make pension contributions and you have low income, it will bring you down below the minimum income floor and then that brings you back up, whereas the employed in Universal Credit can make pension contributions and their UC will be adjusted on to that net income. Again, that is another crucial point around these disparities.

Nigel Keohane: If you look at the behaviours of the self-employed versus the employed, I think it tells us a bit about where we might want to intervene. We did some work looking at how much time people take off sick. Employees take off significantly more time than the self-employed and that is probably not because of some inherent health difference. The employed save much more for a pension than the self-employed. The employed are much more likely—I think twice as likely—to have received training than the self-employed.

It seems to me that there is a set of things that are to do with, I suppose, our social insurance system, and there is a set of things to do with—as Benedict mentioned—the obligations that are increasingly taken on by employers. We need to address both of those. Some of them are probably easier to address than others. The pension issue could be addressed quite easily, at least on the margins, by trying to mimic the auto-enrolment scheme that we have for self-employed maybe when they are making tax self-assessments. There have been some quite interesting ideas on that.

When you are looking at the issues of sickness benefits and promoting insurance, the big question is whether you try to make some of these things mandatory or voluntary schemes. That also applies to parental benefits because, "I have had three children. I am probably not going to have any more. I don't think I am going to be paying my insurance premium, thanks very much". You will have a lot of people opting out. I generally favour some mandatory schemes where we think that lots of people will opt out when they have better information than the provider on what they may be doing.

There may also be a role for trade unions in some of this. We are seeing some emerging trade unions for the self-employed who are trying to help with issues such as training and insurance. That seems to be an important role for that movement to grow into.

Benedict Dellot: Can I just throw in one idea that relates to Nigel's? Sick pay is one of the biggest issues—the lack of sick pay for the self-employed. Could you have a system that mirrors what NEST did for pensions, which is a state-backed insurance provider for the self-employed? It would have to be mandatory because otherwise the premiums would be too high, but it is one idea. It is trying to think of not just state-led solutions but hybrids between the state and the market as well.

Q344 **Craig Mackinlay:** I am interested to hear your thoughts about market-led solutions. It is really incumbent upon many self-employed to take out their own sickness insurance, and that has been quite a commonplace feature for very many years. As Nigel said, when you are faced with a third child some other costs come through. It is going to be the first thing you are going to cut. I think the state could have a role to play in providing that type of insurance cover within a greater scheme. We have to worry about where insurance is going in the future. You will end up with a time where we are all profiled and they say, "You are more prevalent on this, that and the other," where insurance can become very difficult, whereas a state-run scheme is blind to those issues because it has a much bigger pool to draw on.

I think the whole national insurance issue is a difficult one. I could see where the Chancellor was coming from last week but, for other reasons, I was not fully supportive of it. You could see in the mix that there is an academic argument about the new single state pension, the benefits of being employed in terms of lower risk potentially—that is not quite so true now, but perhaps it was years ago—but you have your sick pay and those other types of benefits as well. I think there is a debate to be had about the role of national insurance.

Benedict Dellot: Yes. I think all of these conversations have to happen at the same time, because what happened was that the new state pension was extended to the self-employed last year or a year or two ago. Then we had this national insurance uptick announced a week or so ago, and having those two changes announced at different times does not allow for people to consider the whole picture. What the Chancellor should have done—and maybe we will still see this happen—is a broader consultation with the self-employed, bringing together lots of different types of self-employed people to ask them, "Here are four or five packages for the future. Here is how it will affect different types of people. Here are the losers. Here are the winners. Here are the trade-offs. What is most appealing to you?" and laying out all the options.

Q345 **Steve McCabe:** I was just going to add a point. I was thinking about what you were saying about a possible option for medical insurance, and presumably that could be extended to maternity leave and so on. Doesn't that suggest that there has to be a different way of looking at the self-employed than trying to shoehorn them into the existing national insurance scheme? However it is dressed up, it is never going to be fundamentally fair because they have different pressures and they are going to get different benefits, which will be paid for in different ways. It could fundamentally turn out roughly the same financially, but they will be paying in a different way with different risks. Unless you are going to confer exactly the same benefits you cannot possibly shoehorn them into the existing scheme. Isn't that the conclusion we have to draw?

Benedict Dellot: Yes. To come back to those three layers of protections, one of which is the employer-led protections, there is no employer for the self-employed. There is no equivalent, so we have to think of perhaps a non-state solution or to be a bit more imaginative in how we address these problems. Something akin to a hybrid market-state insurance model when you are talking about sick pay is one option.

Q346 **Chair:** Have you heard of any schemes being developed, Benedict?

Benedict Dellot: No. Some of the most interesting initiatives are very small scale and they are happening outside of the UK. If you go to a country like Holland, they have the same issues with self-employed people. They don't have a state-led sick pay fund. What you have seen is a type of initiative called bread funds emerge. What happens is you have 30 or 40 self-employed people who gather together and every month they put a small amount into a collective pot. When they fall sick they dip into that money and then they repay it when they return to full health. They are small-scale mutual schemes based on trust. They are not anything to do with the state. We are going to be doing some research over the next few weeks with the FSB to look into those different models to see whether they can be replicated in the UK.

Q347 **Luke Hall:** Most of it has been covered. I just wondered, as a last point, whether there are any further disparities that we should be looking at between low earning and high earning self-employed people in terms of access to welfare and support.

Stuart Adam: Broadly speaking, if I were looking at how the self-employed are treated and disparities of low income and high income, basically today the issue is that at the higher-income end the self-employed get very favourable treatment through the tax system. At the low-income end, the self-employed get very unfavourable treatment through the Universal Credit system. That is basically the short summary of what is going on, I think.

Benedict Dellot: I totally agree with that. What you have now is a tax and welfare settlement for the self-employed that is very favourable to high earners and not very favourable to low earners. The Chancellor's attempted NICs rise was the first step in maybe rebalancing that as long as it came with a consideration of extra protections. It is a shame that we have not been able to progress on that front.

Victoria Todd: I don't think I have anything to add to what Stuart said. Just on the general point about considering self-employment specifically as a distinct category, one of the problems with UC and the design was that UC was designed with a monthly assessment period and that really does not fit the model of the self-employed. It felt very much like they were tagged on towards the end.

In terms of reviewing national insurance and everything, we have all of these systems. We have definitions, like you mentioned earlier, across all of these systems that are different. You can be told by one Government Department that you are self-employed—say, HMRC—but the Universal Credit team could decide you are not self-employed under their definition. There is a real confusion. Whenever you are looking at any of these bigger changes, you have to look across all of the systems.

Q348 **Craig Mackinlay:** Can I just make a very minute point on these different levels of income? I came across another one the other day that might be worth thinking about. You are self-employed. You have one level of income that is assessed for tax purposes. In some cases it can be slightly different from NIC but they are fairly obscure. You have another potential level of assessing earnings for UC because if you bought a new van that is qualifying for a UC level, that would be different from the tax reasons. There is another one that has been overlaid into the system and I was quite concerned to see it. That is for qualification for free childcare. There is yet another assessment means by which you assess income for free childcare. We now have multiple layers for the same income being assessed in different ways.

Chair: That was your plea, wasn't it, Victoria?

Victoria Todd: We have made that point in our submission, but also when tax-free childcare was being introduced we made exactly that very point. We are getting more and more systems with different definitions, and as an individual—and we are obviously trying to represent people on low incomes who don't have representation—it is so confusing for people to understand all of these differences and to have different treatments, so absolutely.

Nigel Keohane: I suppose between high earners and low earners it seems to me the issue of bargaining power is the starting point. I am not really, to be honest, that worried about high earners. They are probably in quite a good position to get a higher pay and maybe miss out on some of the benefits that employees would normally have. They can look after themselves, normally.

Q349 **Chair:** They are also better politically organised, aren't they?

Nigel Keohane: Well, perhaps, yes. If you look at the lower-paid self-employed, obviously they don't have the collective bargaining that employees historically have and some employees still have. They are in a weak position, which is partly why some of them may be vulnerable to being taken on as self-employed when actually they should be taken on as employed. They are also vulnerable to getting lower pay than they should when they are in self-employment. It is that issue of bargaining power and I think that does come back to some regulatory intervention and perhaps also to some of the trade union interventions.

Craig, you mentioned three ways in which people are assessed. I think we do need at this stage to take a very big step back and have a look at this. Everyone knows that when we talk about national insurance that is a way of getting revenue in, which has in some cases lots of similarities to income tax. Obviously, in other cases it acts as a payroll tax. Employers pay national insurance contributions. They are paying an apprenticeship levy. They are paying pension contributions as well, so we are putting responsibilities on them, much wider responsibilities. What about organisations that are just set up through contracting? What about the responsibilities there? We do need to take a really big step back and I hope the Taylor review is a moment in that.

Q350 **Chair:** Have you all given evidence to the Taylor review on this? If you haven't, might you?

Nigel Keohane: We certainly shall be giving evidence, yes.

Chair: Yes, very good.

Benedict Dellot: A fundamental point—and this is a much bigger picture—is that the elephant in the room here is employers' NICs when we are particularly talking about things like bogus self-employment. Long term, as a society, I think we should be trying to move away from tax on labour to taxing capital and taxing—

Chair: Or consumption.

Benedict Dellot: —unearned income more than taxing earned income. I think that is a shift that we should be trying to have, but it is going to be difficult because if we cannot raise national insurance in a way that would be quite progressive and modest, then it does not really give us much hope for a much more significant tax change.

Chair: All right. On that happy note, thank you all very much indeed for your evidence.