

ASSOCIATION OF INDEPENDENT PROFESSIONALS AND THE SELF-EMPLOYED (IPSE) – THE ASSOCIATION OF INDEPENDENT PROFESSIONALS AND THE SELF-EMPLOYED – WRITTEN EVIDENCE ULS0019 – UK LABOUR SUPPLY

The Association of Independent Professionals and the Self-Employed (IPSE) is the only organisation dedicated solely to the UK's 4.3 million self-employed, including sole traders, freelancers and contractors. The solo self-employed add an estimated £303bn in value to the UK economy,¹ operating across a range of industries from construction and agriculture to textiles, food preparation and accounting, as well as lawyers, doctors, writers, managers and many more.

Initially established by contractors in response to the off-payroll working rules (IR35) in 1999, IPSE plays an important role in sharing the experiences of freelancers and how they now operate within the labour market.

Question 1: What are the recent trends in labour supply? How large are reductions in the size of the labour force?

We know from the Office for National Statistics that the overall number of self-employed has fallen from 5 million in January 2020 to 4.3 million in June 2022, equivalent to a fall of 700,000 self-employed individuals.² This decrease was largely driven by negative net flows out of self-employment and into employment during the pandemic.

However, recent positive net flows into self-employment from employment and the economically inactive are beginning to reverse this trend, with the number of self-employed workers increasing over successive periods since January 2022 (January to March³ and then April to July⁴). This has resulted in a small increase in the overall number of self-employed workers, increasing from 4.2 million in January 2022 to 4.3 million in June 2022.

Question 2: Which sectors and regions are most affected? Are the public and private sectors affected differently?

IPSE research has revealed that solo self-employment has fallen across key industries since January 2020, with the number operating in construction and building trades occupations falling by 10 per cent since 2020 to 366,000 individuals.⁵

Similarly, the number of solo self-employed operating in artistic, literary and media occupations has decreased by 14 per cent since 2020 to 258,000 individuals.

¹ IPSE, The Self-Employed Landscape in 2021, 2022

² Office for National Statistics, Labour market statistics time series, 2022

³ Office for National Statistics, Understanding changes in self-employment in the UK: January 2019 to March 2022, 2022

⁴ Office for National Statistics, Employment in the UK: September 2022, 2022

⁵ IPSE, The Self-Employed Landscape in 2021, 2022

On the other hand, other occupations for solo self-employed workers have experienced increases since 2020 with the number working as road transport drivers and in agricultural and related trades increasing both increasing by six per cent (276,000 and 185,000 respectively).

Question 3: Which people have been leaving the labour market? What is the socio-economic and demographic breakdown?

Self-employment has fallen most sharply amongst men since 2020, falling from 3.3 million in March 2020 to 2.7 million in March 2022 – equating to the lowest level of male self-employment in over 10 years.⁶

Self-employed women have also experienced a drop in numbers since 2020, falling from 1.7 million in March 2020 to 1.5 million in March 2022 – equating to the lowest level for female self-employment since 2016.

Looking at the solo self-employed population, IPSE research has revealed a drop of seven per cent in the number of men compared to a drop of three per cent in the number of women.⁷

Despite this, the number of solo self-employed men has increased by 10 per cent since 2008 whilst the number of women has increased by 59 per cent.

The drop in the overall number of self-employed workers has been largely driven by net flows out of self-employment, with those aged 45 to 54 years disproportionately more likely to leave self-employment. For instance, between March 2019 and March 2022, the number of self-employed workers aged 45 to 54 years fell by almost a quarter of a million (239,000 individuals).⁸

Question 4: What factors are contributing to reductions in the size of the labour force?

Impact of IR35

Whilst the government has announced it will repeal the devastating IR35 reforms in the public and private sector from April 2023, IR35 has unquestionably resulted in contractors leaving self-employment – often moving abroad or leaving the labour market altogether as a result.

In fact, we know that as a result of the IR35 reforms in the private sector in April 2021, over a third of contractors (35%) have left self-employment, with 24 per cent of freelancers intending to work abroad in the 12 months following the introduction of the reforms.⁹

Similarly, as a result of a diminishing availability of 'outside IR35' roles, many limited company directors have been forced to close down their limited

⁶ The Office for National Statistics, Understanding changes in self-employment in the UK: January 2019 to March 2022, 2022

⁷ IPSE, The Self-Employed Landscape in 2021, 2022

⁸ The Office for National Statistics, Understanding changes in self-employment in the UK: January 2019 to March 2022, 2022

⁹ IPSE, Taking stock: Assessing the impact of IR35 reforms in the private sector, 2021

company. For instance, we know from surveying 501 nationally representative clients, that 28 per cent of clients have decreased the number of contracts they've given to contractors since the reforms.¹⁰

Many of these directors will be approaching or even past retirement age and operating through a limited company allowed them to provide flexible work to clients without returning to payrolled employment. We know from conversations with IPSE members that many of these directors have not returned to the labour market since the introduction of the reforms in April 2021 which is ultimately contributing to the UK's increasing levels of economic inactivity.

In fact, we know from previous IPSE research that as a result of IR35 reforms in the private sector, 11 per cent of freelancers intended to retire in the 12-month period following the reforms.¹¹

Respondents to our survey on the impact of IR35 reforms in the private sector commented:

"The whole contracting market has shrunk dramatically... Will be investigating work opportunities abroad as UK market becoming increasingly tax punitive."

"Since IR35, all clients have asked me to go via an umbrella company or I won't get a contract – so better to close the company and move abroad where I can continue contracting."

"IR35 accelerated the closure of my company and potential full retirement. I would have continued contracting at least part-time had IR35 not been extended to the private sector, thus taking my 30 years plus experience out of the market."

Impact of the pandemic

Two out of three freelance business (67%) were negatively affected by the pandemic, with three out of five freelance businesses (60%) experiencing a decrease in turnover due to the pandemic. Despite this, many of these businesses were unable to access government support.

Whilst 3.4 million self-employed individuals were eligible for the Self-Employment Income Support Scheme (SEISS), 1.6 million self-employed individuals were excluded from government support during the pandemic.¹²

The inability to access government support, particularly amongst limited company directors, has resulted in over half of freelancers (52%) not feeling supported by the UK government. Unsurprisingly, this figure rises to 67 per cent for limited company directors.¹³

As a result of the pandemic, one in four freelancers (25%) were considering leaving self-employment in April 2021.

¹⁰ IPSE, The client's perspective: Assessing the impact of IR35 reforms in the private sector, 2022

¹¹ IPSE, Taking stock: Assessing the impact of IR35 reforms in the private sector, 2021

¹² Institute for Fiscal Studies, Who is excluded from government's Self-Employment Income Support Scheme and what could the government do about it? 2021

¹³ IPSE, Lockdowns and support gaps: Counting the cost of the pandemic on self-employment

30 September 2022