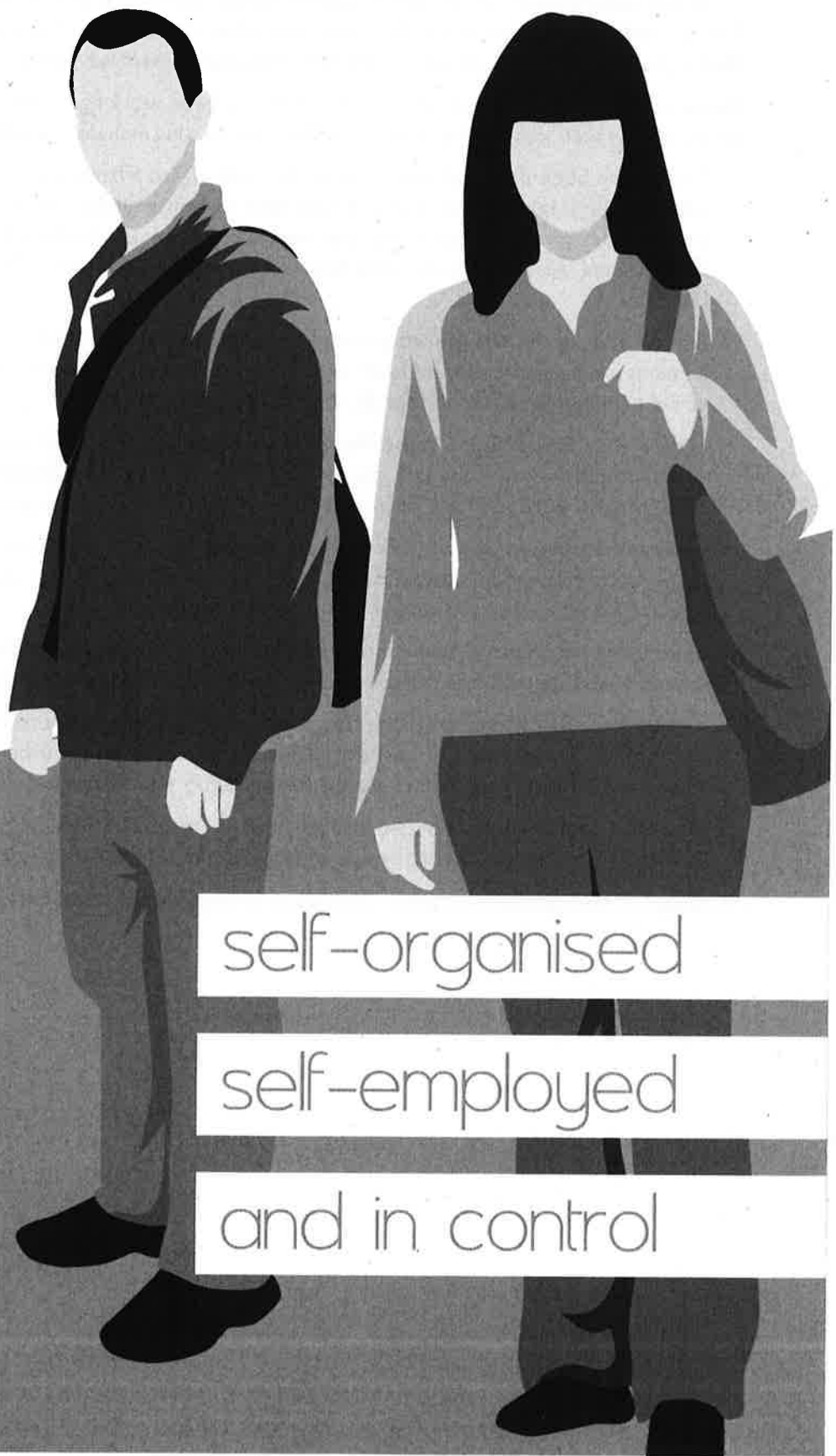


BREAD FUNDS

support for self employed

Report prepared by
Bread Funds UK for the
Independent Review of
Employment Practices in
the Modern Economy
led by Matthew Taylor

May 2017



self-organised

self-employed

and in control

Executive Summary

A "Bread Fund" (*Broodfonds* in Dutch) is a small group of self-employed people who put aside money each month and receive money if unable to work through illness or injury. Bread Funds started in the Netherlands, where there are over 250 groups with a total of over 11,000 members.

Bread Funds UK is a project to set up similar groups in the UK. Following a successful feasibility study, there has been considerable interest in setting up Bread Funds in the UK, both from individual self-employed people and from groups representing and working with self-employed people. For example, Bread Funds formed part of the first recommendation in a report from the Federation of Small Businesses, which led to interest from high-level government advisors.

Based on the interest shown, Bread Funds UK has been working to set up pilot groups. However, this process has taken longer than expected. Reasons for this include the following:

- There have been delays of several months in setting up a bank account for the first Bread Fund, with one bank taking a decision at a high level to refuse all account applications from Bread Funds. This appears to be because of stricter interpretation of EU banking legislation in the UK than in the Netherlands. An account has since been set up successfully with a Dutch bank that operates in the UK.
- Bread Funds in the UK cannot promise to refund unused funds to members when they leave, which is a unique selling point of the Dutch model. Again, this appears to be because of stricter interpretation of EU banking legislation in the UK than in the Netherlands.
- Eligibility for Bread Funds in the Netherlands is relatively straightforward as there is a clear definition of self-employment. In the UK, there is more of a grey area between employment and self-employment, with a variety of often complex or precarious arrangements lying between the two.
- Many self-employed people in the UK are on low and often irregular incomes and might struggle to meet monthly payments into a Bread Fund. Yet these are precisely the people who would be most in need of funds if unable to work through illness or injury.

Despite these problems, Bread Funds UK is continuing to work towards setting up pilot groups. However, based on our experiences to date, we are making the following policy recommendations:

- 1. UK banks should allow more flexible banking arrangements as available in the Netherlands, where EU banking legislation tends to be interpreted more flexibly. A statement from regulators could help clarify the situation.**
- 2. A clearer definition of self-employment is needed to tidy up the grey area that has grown up between traditional employment and self-employment.**
- 3. Gaps in the welfare system that have arisen because of this grey area need to be closed.**



Introduction

Bread Funds are an initiative aimed at tackling a specific problem: self-employed people being ineligible for sick pay. This has been the case ever since sick pay was established by the National Insurance Act 1911, as Hilaire Belloc pointed out in his 1912 book *The Servile State*:

"I may be a writer of books who, should he fall ill, will leave in the greatest distress the family which he supports. If the legislator were concerned with the morals of citizens, I should most undoubtedly come under this law, under the form of a compulsory insurance added to my income tax. But the legislator is not concerned with people of my sort. He is concerned with a new status which he recognises in the State, to wit, the proletariat. He envisages the proletariat not quite accurately as men either poor or, if they are not poor, at any rate vulgar people working with their hands, and he legislates accordingly."

These Edwardian ideas are now well out of date. Average earnings from self-employment are now lower than average earnings of employees, and modern employment practices such as flexible working and the gig economy affect people across a wide range of occupations. Yet sick pay is still something that only employees, not the self-employed, have a right to receive.

Bread Funds are a new way for self-employed people to support each other both financially and practically if they become unable to work through illness or injury. They started in the Netherlands, following the 2004 abolition of sick pay for self-employed people; Bread Funds UK is a project to set them up in the UK.

A "Bread Fund" (the literal translation of the Dutch word *Broodfonds*) is a group of self-employed people who put aside money each month which is used to support any member of the group who becomes unable to work through illness or injury. At 1 April 2017 there were 250 such groups in the Netherlands with a total of 11,000 members¹. Bread Funds UK is a project looking to start similar groups in the UK. Following a successful feasibility study², the project is now in the process of setting up pilot Bread Fund groups.

Origin and development of the Bread Fund concept

Broodfonds groups in the Netherlands

Dutch self-employed people, unlike their British counterparts, once had rights to statutory sick pay under a scheme called WAZ, in return for paying national insurance contributions into the scheme. However, WAZ was abolished on 1 August 2004³, and the Dutch government advised self-employed people to take out income protection insurance to provide equivalent cover. For some occupations such as the building trades, the premiums quoted were staggering, and could be as high as €600 to €800 per month. Many self-employed people could not afford income protection insurance.

In response to this, self-employed people in a co-operative network called *Solidair*⁴ set up their own "gift circle" (*schenkkring*), where each member put aside money each month in a special account from which donations were made to support any member who became unable to work through illness or injury for an extended period. They decided to call this gift circle *Broodfonds* (Bread Fund); in Dutch, just as in English, the word for bread is also a slang term for money.

After this first "Bread Fund" ran successfully for several years, three of its members decided to set up a venture called *De BroodfondsMakers* (The Bread Fund Makers) to help other self-employed people set up Bread Fund groups. This was very successful, and there are over 250 groups with over 11,000 members, and it keeps growing all the time.

The Dutch system is based on every member opening a personal Bread Fund bank account into which they pay money each month by standing order. If anyone in their Bread Fund is ill, payments are made from the accounts of all the Bread Fund members, so the person who is ill receives numerous small payments which together provide a replacement income. The payments are all in the form of direct personal gifts from one member to another. The process is managed by the *BroodfondsMakers* administration team and approved by the committee of each Bread Fund. This system was set up following meetings with the Dutch tax authorities, who approved it.

Members pay a joining fee plus monthly payments. The joining fee was initially set at a relatively high level in order to support the cost of developing the systems needed to run Bread Funds, such as the online software platform. As the number of Bread Funds grew, joining fees were reduced and people who had already paid the higher amounts received a refund of the excess. Members can choose between a range of "participation levels", based on the amount they wish to receive each month if unable to work, with proportional levels of monthly payments. Initially three levels of participation were available, though this was later extended to eight. There is also a monthly administration contribution, which is the same for all members of a fund, though individual funds can choose to set higher levels and use the additional funds for social activities.

The money in each Bread Fund individual account remains the property of the member, and is refunded to members who leave the fund. However, a Bread Fund is not a savings scheme: if the amount in a member's individual account reaches the "maximum buffer" level corresponding to the member's participation level, the excess is refunded at the end of the year.

Organisations representing self-employed people were initially slightly sceptical of the scheme, as the money given out might need to be reduced if some or all of the personal accounts within an individual Bread Fund do not have sufficient funds. Although this only happened to two of the funds, it was decided to set up the Bread Fund Alliance (*Broodfonds Alliantie*) so that if one of the funds ran short of money, it could be supported by other funds so that people who are unable to work receive the full amount. Each Bread Fund can choose whether to join the Alliance; more than 150 have already done so⁵.

Dutch politicians have adopted various viewpoints on Bread Funds. Many are in favour of them, appreciating that people often become self-employed to be in control of their own working lives, and with Bread Funds they are also in control of their own safety net. Some would prefer to make income protection insurance compulsory for self-employed people, which is controversial because of the high premiums charged. Others would prefer a re-introduction of the WAZ, so that self-employed people are insured against inability to work through national insurance.

Conclusions of the UK feasibility study

A feasibility study on setting up Bread Funds in the UK was completed in 2014 thanks to a £30,000 grant from Esmée Fairbairn Foundation. The overall conclusion of the study was that it is indeed feasible to set up mutual income-protection support groups for self-employed people in the UK, comparable to the Dutch *Broodfonds* groups. However, the study considered it advisable to begin with pilot groups to test and refine the concept before embarking on a full-scale launch.

The UK regulatory system necessitates some structural differences compared to the Dutch version. One of the key differences is that according to legal advice it would not be possible to operate Bread Funds in the UK using individual bank accounts, and it would not be possible to promise to repay people if they leave a fund.

Other differences include legal structures: while the Dutch groups are unincorporated associations, UK advice was to set up Bread Funds as not-for-profit companies limited by guarantee. The lawyers drafted the necessary constitution and membership agreement to make this possible, and arranged for these documents to be checked by both HM Revenue and Customs (HMRC) and the Financial Conduct Authority (FCA). To do this, they registered a company using these documents, as tax authorities and regulators are only willing to rule on the status of an existing organisation, not a hypothetical one. This company then became available for use by a pilot Bread Fund.

Many of the provisions recommended reflect those in the Dutch setup. For example, financial modelling showed the maximum payout of 2 years was reasonable, although it was recommended that the minimum group size be set at 25 rather than 20 as in the Netherlands. The requirement for members to be in business for a year was also kept the same, though in the UK there is another reason for this: the “minimum income floor” restrictions in Universal Credit only apply to people who have been self-employed for more than 12 months⁶.

Market research revealed an encouragingly positive attitude to the Bread Funds idea, compared to the disparaging view of existing insurance products designed to pay out money if a self-employed person becomes unable to work.

Based on these conclusions, and with the necessary legal structure ready for use, the project then moved into the next phase: setting up pilot groups. For this, further funding was obtained from Esmée Fairbairn Foundation, with matching funding from the Network for Social Change.

Experience of setting up pilot groups in the UK

The plans were to set up two pilot groups if possible. The idea was to have one group in London and one in a location outside London. At the start of the pilot phase, there was a lot of interest in setting up a pilot group in Nottingham, so a start was made towards building a group there. At the same time, the necessary systems including software were developed. Based on the results of the market research in the feasibility phase, which included a London focus group, it was considered better to wait until the systems were ready to use before starting a London pilot group.

Interest continued to grow while the systems were being developed. The Nottingham group was very close, with enough people willing to be committee members and almost enough people ready and willing to join, but did not quite reach the minimum number of 25 members needed. As the minimum number is set by the need to have sufficient funds to pay out if someone is unable to work in the early stages, it was unfortunately not possible to start the group with less than this number of members.

Once the systems were set up, plans were made to launch a London group, but just as a meeting was being planned, the Brexit vote took place. Following this vote, and the subsequent fall in the value of the pound sterling, the Dutch partner organisation was less confident about setting up UK groups. This is understandable, as Bread Funds require a commitment over several years, and there is still uncertainty around whether there will be a “hard” or a “soft” version of Brexit.

Interest in Bread Funds remained high, so after some of the confusion around Brexit had settled down, a meeting was held in London in November 2016 for possible pilot group members, and moves were made towards setting up a bank account for the company that had been set up ready for a pilot group. Although there was substantial interest, as with Nottingham there were not enough people interested to constitute a pilot group. Some people, notably, wanted to wait until the full launch before joining, as the uncertain economic situation in the wake of the Brexit vote made people less confident in taking part in a pilot group to test a new concept.

Setting up a bank account also proved problematic. The first bank approached decided, at what they described as a very high level in the bank, not to offer bank accounts to any Bread Fund group as this would be “outside their risk appetite”. They did this after being sent copies of the full legal opinion and the rulings from HMRC and the FCA demonstrating that a Bread Fund was perfectly legal. Following this initial rejection by a UK bank, an application was made to the UK branch of Triodos Bank, the Dutch bank that provides banking facilities to Dutch Bread Funds, who were more positive. As a result, after some months’ delay there is now a bank account set up ready for the first UK Bread Fund to use.

Interest in policy circles

All through this process, there has been considerable interest in Bread Funds from people developing policies to support self-employed people. For example, the Federation of Small Businesses (FSB) included Bread Funds in the first of their recommendations to Government in a “landmark report” on supporting self-employment⁷. Because of the FSB’s key role in representing self-employed people, it is not surprising that this report elicited interest from advisors at the heart of government, although the report was released before the vote for Brexit came to dominate policy matters.

Interest first started following media articles in *The Guardian* in late 2014⁸ and early 2015⁹. Bread Funds were a key example cited in a workshop organised by Co-operatives UK and the Trades Union Congress (TUC) on 17 July 2015, which led to a report on co-operative and trade union solutions for self-employed people, called “Not Alone”¹⁰. Bread Funds UK and our Dutch partners had input into this report.

The FSB report mentioned above followed this, including “cooperative models of savings, drawing on the example of Dutch ‘bread funds’” as part of its first main recommendation to Government. As noted above, Bread Funds are not a savings scheme; rather, they are a way for self-employed people to support each other financially and in other ways if they become unable to work through illness or injury.

Further policy interest was shown by the RSA¹¹, for example in their 2017 report “The Entrepreneurial Audit”¹². Following this, Bread Funds UK wrote a blog article for the RSA¹³. At the time of writing, the RSA are working on another report jointly with the FSB which is looking at “bottom up” solutions for the self-employed, including Bread Funds.

A policy review that may lead to significant changes for self-employed people is being led by Matthew Taylor, chief executive of the RSA, and covers modern employment practices such as the “gig economy” and zero-hours contracts. Launched in November 2016¹⁴, it came to the fore following the dramatic Government U-turn on plans in the Spring 2017 Budget to increase National Insurance contributions for self-employed people. Following persistent criticism of the increase, the Government said it would retract the increase and await the results of the Taylor review.

Bread Funds UK has contributed to the online dialogue set up as part of the Taylor review and is submitting this report as part of its response to the review.

Learning from the experience of Bread Funds

As noted above, a key legal restriction in the UK appears to be that people cannot be given a promise that they will get their money back. This means that Bread Funds in the UK have lost one of the unique selling points of the Dutch model. Even setting up a bank account for a Bread Fund in the UK has proved tricky; luckily, the Dutch bank that provides accounts to Bread Funds in the Netherlands has a branch in the UK.

Bread Funds are not unique in having bank account problems. An article in *The Observer* on a disabled person whose bank account was closed after he received substantial compensation for his disabilities noted that

“He is one of a growing number of customers who have had their bank accounts closed without warning or explanation. In the past two years The Observer has been contacted by bewildered readers of all backgrounds – including an economics professor, a migraine charity, a prominent campaign group and numerous ordinary householders whose finances involve nothing more exotic than a holiday in Spain.”¹⁵

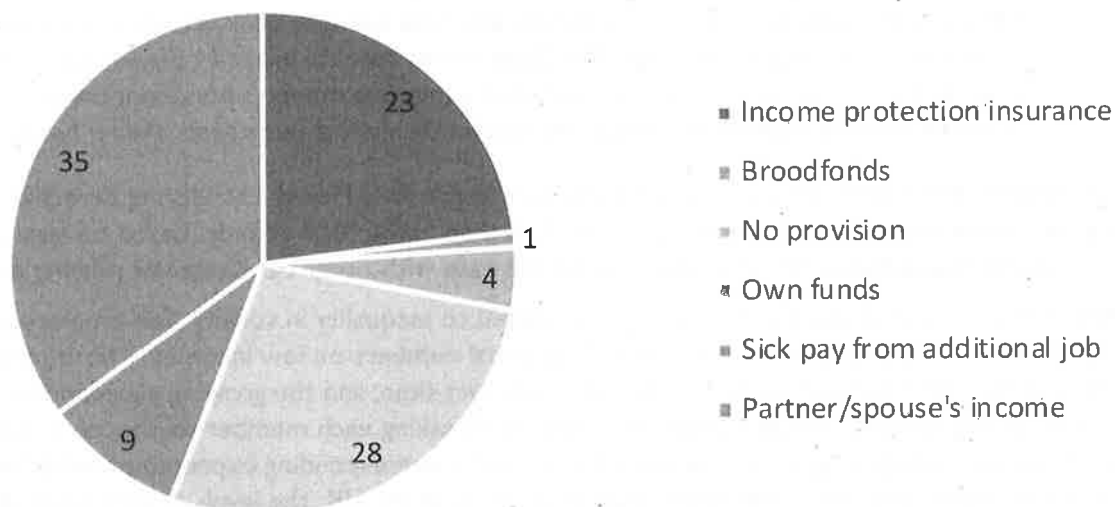
The source of the problem appears to be the EU Fourth Anti-Money Laundering Directive 2015, which appears to be interpreted more strictly in the UK than in the Netherlands. Based on legal advice received by Bread Funds UK, this seems to be the case with other EU directives relating to banking.

Another issue with Bread Funds in the UK is related to inequality in society. Self-employed people in the UK have widely varying incomes, with substantial numbers on low incomes. This is partly because many of the self-employed people in the UK work part-time, and the growing gig economy contributes to this. Bread Funds deal with variations in income by asking each member to choose a “level of participation” comprising a monthly contribution and a corresponding expected monthly benefit if unable to work. Because of the wide range of incomes in the UK, the levels of participation in Bread Funds used in the Netherlands would need to be adapted. It may also be necessary, for example, to check that there are enough high and medium earners in each pilot group to cover any high earners needing payments. Additionally, at the lowest level of participation, the administration costs are a relatively high proportion of the overall monthly contribution. As a result, the model may need to be adapted to charge lower administration costs to people on low incomes.

Self-employment in the UK and the Netherlands

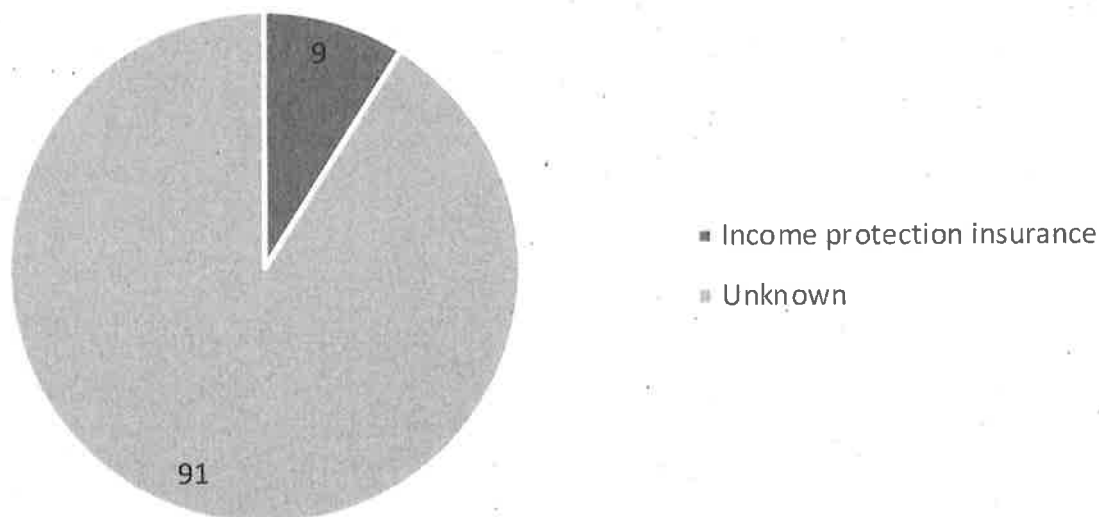
As part of the process of introducing “Bread Fund” groups for self-employed people to the UK, Bread Funds UK has compared the situation of self-employed people in the UK to their counterparts in the Netherlands, where Bread Funds originated, and to a limited extent in some other countries.

Netherlands



(Source: CPB Policy Brief, Nov 2016, Zelfstandigheid en arbeidsongeschiktheid)

UK



(Source: FSB: Going it alone, moving on up: supporting self-employment in the UK, April 2016)



Different definitions of self-employment

The UK and the Netherlands are similar in terms of levels of self-employment¹⁶, ease of setting up in business and cultural attitudes towards self-employment. However, the definition of self-employment in the Netherlands for tax and benefit purposes is broader than in the UK as it also encompasses directors and major shareholders of companies.

In the UK, company directors who are also employees are treated for tax and benefit purposes as employees, with a minor exception relating to the periods over which National Insurance contributions are calculated¹⁷.

This means that while Dutch self-employment statistics include all those who run or control businesses, UK figures exclude people who run their businesses via limited companies. It also skews figures for average earnings from self-employment as some directors receive large salaries. It is therefore sometimes more useful to compare statistics for sole traders¹⁸ rather than self-employed people.

Tax and benefits for self-employment

In the UK, employees and the self-employed pay income tax at the same rates, though employees have tax deducted at source via PAYE. In the Netherlands, tax rates for both are also the same, although self-employed people working full-time currently benefit from an additional tax allowance (*zelfstandigenaftrek*) that resembles an additional personal allowance.

National Insurance payments in the UK are higher for employees, in return for more rights and entitlement to benefits e.g. Minimum Wage / Living Wage, Statutory Maternity, Paternity, Adoption and Sick Pay, paid holidays, redundancy pay, protection against unfair dismissal etc. Self-employed people pay less National Insurance, especially as there is no equivalent to the employer's contribution. An attempt in the 2017 Spring Budget to increase National Insurance for self-employed people caused such a furore that it was reversed in a week. However, the lack of rights and benefits for self-employed people remains. Indeed, it is arguably getting worse, since as Universal Credit is introduced, people who have been self-employed for more than a year are deemed to receive at least the "minimum income floor" even if in fact they do not.

As self-employed people have less rights and benefits than employees, some businesses prefer to pay people as self-employed rather than as employees. This in turn has led to measures to prevent disguised self-employment, such as IR35, which also affects people who work via their own companies.

To complicate matters further, in the UK there is a third status alongside employees and self-employed, "worker status", including some of the benefits of employees but excluding others such as the right to redundancy pay¹⁹.

In the Netherlands, premiums are paid for national insurance, and again, employees pay higher premiums and receive more rights and benefits. However, there is a specific form of maternity pay for self-employed people (ZEZ). There was also a specific form of sick pay for self-employed people, WAZ, which was abolished in 2004. Bread Funds were set up following the abolition of WAZ.

Modern employment practices

In the Netherlands, just as in the UK, modern employment practices have led to "grey areas" arising between employment and self-employment, especially for temporary and freelance work. Temping agencies such as Randstad have long been a feature of the Dutch employment scene, and are subject to regulations governing agency work, but the "gig economy" or "platform economy" is disrupting this to some extent. Indeed, some of the temping agencies have launched their own platforms.

✳ Bread Funds in the UK: self-organised, self-employed and in control

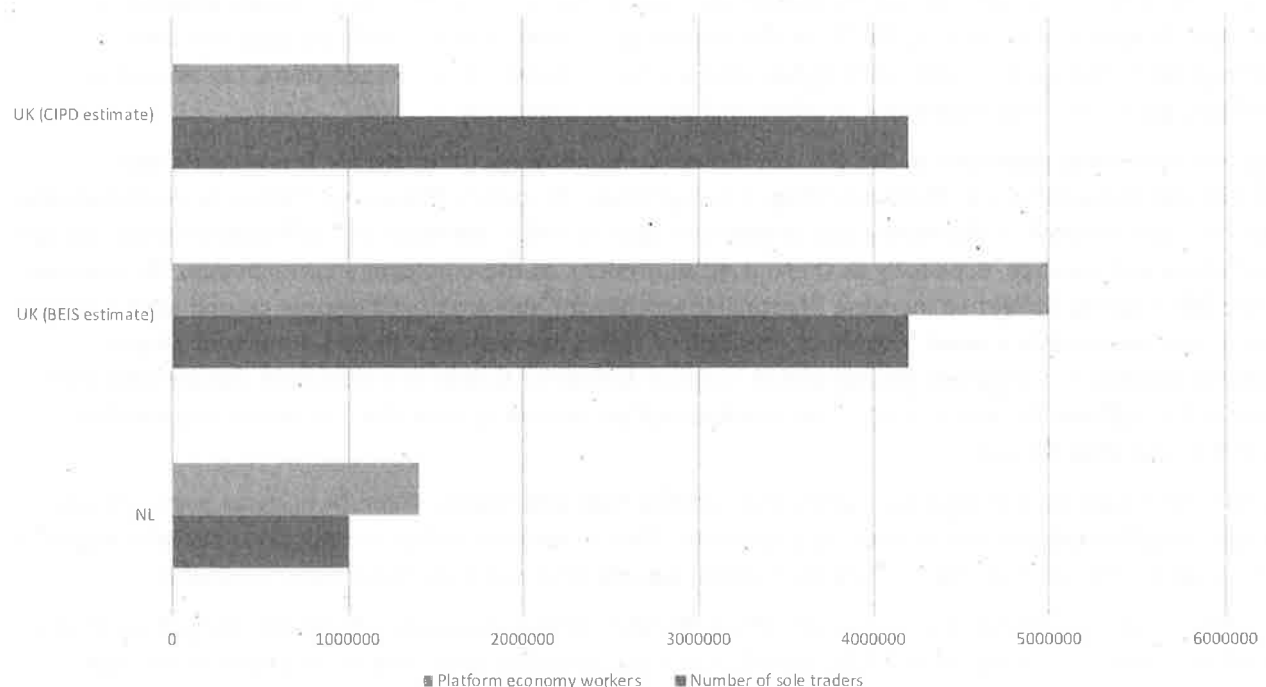
Recent statistics suggest about 1.4 million people in the Netherlands have carried out work via platforms²⁰ – more than the number of self-employed people working as sole traders (about 1 million)²¹. As in the UK, this has led to allegations of false or disguised self-employment. However, only about a fifth of Dutch people who found work via platforms earned half or more of their income through platforms; for the others, platforms are usually a way of earning a little extra money.

Equivalent UK statistics are hard to find. For example, the Work Foundation wrote in 2016 that

“We have yet to see any conventional measures to mark the rise of the gig economy in changing the structure of employment in either the United States or the UK.”²²

The Department of Business, Energy & Industrial Strategy (BEIS) said it believed some five million people are working in the gig economy in the UK²³, while the Chartered Institute of Personnel and Development (CIPD) puts the figure at 1.3 million²⁴. The larger of these two figures is higher than the number of sole traders in the UK, which stood at 4.2 million in 2016²⁵.

Platform economy compared to sole traders



(Sources as in text above)

Conclusions from comparisons between the Netherlands and the UK

While self-employment in the Netherlands and the UK is broadly comparable, with similar percentages of self-employed people and ease of setting up in business, the Dutch system is somewhat simpler and more flexible. The Dutch definition of self-employment makes it tax-neutral to change between being a sole trader and trading via a company. Dutch self-employed people do not need to worry about the complexities of the UK's IR35 intermediaries legislation if they use one of the model self-employment contracts approved by the Dutch tax authorities²⁶.

More complex employment arrangements

As the CIPD report shows, many people working in the gig economy have other work elsewhere as an employee, agency worker or via their own business. Their gig economy earnings could be classed as employment, self-employment, worker status, agency work, or property income (e.g. Airbnb). Therefore, one effect of the gig economy is that more people now have mixed employment arrangements.

This is not limited to the gig economy, though. As part-time work has increased, options have arisen such as having several part-time jobs, or part-time employment plus part-time self-employment, and the gig economy has basically built on this. There has also been the rise of zero-hours contracts, which again can be mixed with gig economy work.

Then there are employment arrangements designed to minimise tax, resulting in a cat-and-mouse game as tax authorities clamp down on them. For example, contractors setting up limited companies and paying themselves via dividends has led to the IR35 tax rules being introduced, which in turn has spawned a minor industry of advisers helping contractors avoid being caught by IR35. Likewise, in April 2016 when one-person companies could no longer claim a reduction of employer's National Insurance contributions (the so-called Employment Allowance), many were replaced with two-person companies that could still claim Employment Allowance.

Government policy, however, tends to focus on simpler, more traditional situations, such as straightforward full-time and part-time employees and self-employment, rather than a mixture of these or more complex arrangements. The result is that people with more complex arrangements can fall through the cracks. For example, if someone works for several employers but works only a few hours per week for each, they may pay no National Insurance contributions at all, and therefore do not build up rights to benefits or pensions. People in this situation have enquired about joining a Bread Fund even though technically they are not self-employed at all.

Another group who have enquired about joining a Bread Fund even though they are not self-employed are people working via their own companies or small workers' co-operatives. Technically, as employees they have rights to Statutory Sick Pay (SSP), but as their company's money comes from the work they do, if they become unable to work then the company cannot afford SSP. In past years, this was not a problem because SSP could be reclaimed from HMRC, but this was abolished from 6 April 2014.

Variable earnings

Another aspect of the gig economy, and of flexible working practices and rising self-employment, is that earnings can be less regular. Yet a whole range of financial services are based on regular payments: mortgages, loans, pensions, car leases etc. While some outgoings such as council tax, rent etc. are regular by their nature, some financial services could be structured more flexibly. Indeed, some already are, such as mortgages allowing overpayments that you can borrow back if necessary, and pensions allowing additional voluntary contributions. But despite this, the idea of regular payments is ingrained in the financial services industry, and affordability of debt finance is based around regular payments. The upshot of this is that people working in the gig economy and other flexible working arrangements tend to be at a disadvantage when it comes to financial services. This in turn has the knock-on effect of people saving less²⁷ and making less pension provision²⁸.

Bread Funds are also based on regular contributions, but then so are insurance premiums. As Bread Funds are self-help organisations, members might expect them to be more flexible if people miss payments, but if payments are missed, less money is available to support members who are unable to work.

Facilities: Bread Funds compared to Income Protection and related insurances

Feature	Broodfonds - NL	Bread Fund - UK	Income Protection Insurance	Critical Illness Cover	Personal Accident Insurance
Joining fee	Yes: € 250	Yes: £100	No	No	No
Monthly payments	Paid in to individual account. Remain property of member.	Paid in as gifts to central fund	Paid in as premiums	Paid in as premiums	Paid in as premiums
Money received if unable to work	Paid as gifts from all members' individual accounts.	Paid as gifts from central fund	Paid as a claim	Paid as a claim	Paid as a claim
Exclusion for prior conditions	No	No	Yes	Yes	Yes
Waiting period from taking out policy to first claim	No	No	Usually	Usually	Usually
Waiting period from being unable to work to first claim	30 days	30 days	Varies	Varies	Varies
Maximum claim period	2 years	2 years	Varies	Varies - may pay out lump sum	Varies - may pay out lump sum
Covers illness?	Yes if unable to work	Yes if unable to work	Yes if unable to work	Only for specific illnesses	No
Covers accident?	Yes if unable to work	Yes if unable to work	Yes if unable to work	No	Yes
Contributions / premiums vary with occupation	No	No	Usually yes; "Holloway Model" policies: no	Maybe	Maybe
Contributions / premiums vary with age	No	No	Yes	Yes	Yes
Money refunded if leave?	Yes - balance of individual account refunded	Maybe - members decide, not guaranteed by law	No (except that some policies pay out if held to maturity)	No (except that some policies pay out if held to maturity)	No
Profit share paid out?	Effectively yes, as excess admin costs refunded	Effectively yes, as excess admin costs refunded	Only with some policies e.g. some Friendly Societies	Only with some policies e.g. some Friendly Societies	Only with some policies e.g. some Friendly Societies
Practical help and support from other members?	Yes - on a voluntary basis	Yes - on a voluntary basis	No	No	No
Medical approval needed?	No	No	Maybe	Maybe	Maybe
Who you contact if unable to work	Committee member (supportive)	Committee member (supportive)	Member of staff (may try to disallow claim)	Member of staff (may try to disallow claim)	Member of staff (may try to disallow claim)

Note: insurance details are only for illustration, policies can vary in what they cover.

(Source: Bread Funds UK own research)



Bread Funds in the UK: self-organised, self-employed and in control

Conclusions

Bread Funds are a new and interesting way for self-employed people to get together and self-organise to support each other in case they become unable to work through illness and injury. For people who are already in control of their own working environment, Bread Funds represent an attractive option for them to take control of their own provisions against inability to work.

Following a successful feasibility study, there has been considerable interest in setting up Bread Funds in the UK, both from individual self-employed people and from groups representing and working with self-employed people. Groups showing interest include trades unions, co-operative support organisations and organisations representing self-employed people. For example, Bread Funds formed part of the first recommendation in a report from the Federation of Small Businesses, which led to interest from senior government advisors. There has been interest from across the political spectrum from those concerned with the situation of self-employed people, many of whom are on low incomes and with little or no provision for financial support if they become unable to work.

Buoyed by this interest, Bread Funds UK has been working to set up pilot groups. However, this process has taken longer than expected. One of the reasons for this was the uncertainty around the Brexit vote, which on the one hand made self-employed people in the UK reluctant to join something new and experimental, and on the other meant that the Dutch partner organisation needed to reconsider its involvement given the uncertainty of future EU-UK trade agreements and fluctuating exchange rates.

There were also delays of several months in setting up a bank account for the first Bread Fund, with one bank deciding to refuse all account applications from Bread Funds. This appears to be because of stricter interpretation of EU banking legislation in the UK than in the Netherlands. An account has since been set up successfully with a Dutch bank that operates in the UK, so the first pilot group has a bank account ready for use.

Another factor that put off some potential members is that Bread Funds in the UK cannot promise to refund unused funds to members when they leave, which is a unique selling point of the Dutch model. Again, this appears to be because of stricter interpretation of EU banking legislation in the UK than in the Netherlands.

Eligibility for Bread Funds in the Netherlands is relatively straightforward as there is a clear definition of self-employment. In the UK, there is more of a grey area between employment and self-employment, with a variety of often complex or precarious arrangements lying between the two.

Many self-employed people in the UK are on low and often irregular incomes and might struggle to meet monthly payments into a Bread Fund. Yet these are precisely the people who would be most in need of funds if unable to work through illness or injury. The model may need to be revised to take this into account, for example by reducing administration fees for people on low incomes.

Despite these issues, Bread Funds UK is continuing to work towards setting up pilot groups.

Policy recommendations

The experiences to date of developing Bread Funds in the UK suggest that some policy changes might improve matters. These policy changes are not specific to Bread Funds but are more generally applicable.

1. UK banks should allow more flexible banking arrangements as available in the Netherlands, where EU banking legislation tends to be interpreted more flexibly.

This arose from the Dutch authorities recommending individual *Broodfonds* bank accounts for members, which would not work in the UK according to legal advice received – advice which was based substantially on EU banking directives. Another example of Dutch flexibility is the grant of a banking licence to the banking app Bunq in 2015²⁹. Also, as noted above, many organisations including Bread Funds have had problems with opening bank accounts because of the UK's strict interpretation of the EU Fourth Anti-Money Laundering Directive 2015. As EU law is transposed into UK law as part of Brexit, it is important to insure this does not result in strict interpretations of EU law becoming "fossilised" to the UK's disadvantage. A statement from regulators could help clarify the situation.

2. A clearer definition of self-employment is needed to tidy up the grey area that has grown up between traditional employment and self-employment.

This has been noted in many reports mentioning Bread Funds, but has also been an issue raised by individuals interested in Bread Funds. For example, someone with several part-time jobs, none of which pay more than the lower earnings limit for National Insurance (£113 per week³⁰) cannot receive sick pay and enquired about joining one of the pilot Bread Fund groups. On the other hand, the employment status of some "gig economy" workers is unclear: for example, employment tribunals have ruled that some Uber drivers have worker status but drivers are still being treated as self-employed while an appeal is pending³¹. The UK government might consider following the Dutch government's lead by applying the same tax treatment to freelancers who are self-employed and those working via their own companies, or providing approved model contracts for freelancers to remove uncertainty as to whether IR35 applies.

3. Gaps in the welfare system that have arisen because of this grey area need to be closed.

One example was quoted above, where an employee is not eligible for sick pay because of having several part-time jobs. However, as Universal Credit is being introduced, another gap is opening: people who have been self-employed for more than 12 months are deemed to earn at least the "minimum income floor"³². In other words, they are treated as earning the equivalent of at least 35 or 40 hours per week at minimum wage even if they do not. This specifically removes the safety net for self-employed people who are temporarily unable (for whatever reason) to do enough work to generate that much money. They will not be able to claim any further support and could be left destitute. Universal Credit and the benefits it is replacing also take little account of modern employment practices, which again could leave some people destitute.

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