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May 2017

Matthew Taylor
Head of Review into Employment Practice in the Modern Economy
Department for Business, Energy and Industrial Strategy
1 Victoria Street
SW1H 0ET

Dear Matthew Taylor,

Review of Employment Practices in the Modern Economy

The Federation of Small Businesses (FSB) is delighted to respond to the above named review. FSB is the UK's leading business organisation. Established over 40 years ago to help our members succeed in business, we are a non-profit making and non-party political organisation that's led by our members, for our members.

The UK labour market has been a recent success, with employment levels at record highs. Small business and self-employment are the engine that has driven the record levels of employment. As well as being the main route by which people achieve good careers, self-employment, start-ups and small firms drive growth and keep markets competitive.

Predicted to overtake the public sector as a source of jobs, the self-employed have for too long been left out of policy decisions and suffer compared to employees on a range of crucial issues – in particular on rights, the risks they face, the volatility of their income, Government programs and tax-funded spending on policies such as pensions auto-enrolment, the performance of private markets in areas such as insurance, the design of the benefits system, and on social issues ranging from isolation and loneliness to their ability to balance the demands of work and their personal life.

Intervention should focus on addressing false self-employment instead of blanket solutions that will negatively affect the overwhelming majority of the genuinely self-employed. Recent estimates have suggested that just 1 in 10 of 4.8 million are falsely self-employed. Measures to tackle these challenges should be both targeted and proportional. It is essential that the freedom to contract remains, and a default assumption of an individual being an employee is not created. Given the role of self-employment in job creation, as well as the additional fundamental risks and challenges it bears in comparison to employment, the current positive recognition of self-employment in the tax system should be maintained.

Instead the Review should look to tackle the major risks and mitigate the impact of the volatility of income for the self-employed, and assess the performance of private markets in particular financial products and mortgages to ensure products offered are accessible and adequate for the self-employed. There is a need to address the

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discrepancies between the self-employed and employees in the social security system. This includes parental benefits and pay, alongside ensuring Universal Credit is more compatible with self-employment, including for individuals with fluctuating profits and seasonal businesses.

Small firms are critical to boosting the route by which most people furthest from the labour market, including those with disabilities, enter work. It means that the factors that make small businesses relatively successful compared to large business on health and wellbeing should be harnessed and built upon, helping drive better results for those returning to work from illness or parental leave and in creating routes for progression. This should build on the reasons for small business success, particularly the flexible and informal arrangements that operate in small business, as well as providing incentives in the tax system that supports firms which employ people furthest from the labour market.

Productivity and small business performance relies on workers equipped to outperform the best from the rest of the world. So there must be a focus on skills, helping business owners including the self-employed develop their own skills, as well as making sure the education and skills systems allow people of every age in every area of the UK to develop so they succeed in the workplace.

The UK has a chance to continue positive growth in jobs and achieve a truly inclusive labour market, but only if small businesses and the self-employment have the support and consideration to do so.

We trust that you will find our comments helpful and that they will be taken into consideration.

Yours sincerely,

Mike Cherry
National Chairman
Federation of Small Businesses

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FSB submission to the Review of Employment Practices in the Modern Economy

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The Changing World of Work for the Self-Employed and Small Businesses: FSB Submission to the Matthew Taylor Review

The Federation of Small Businesses (FSB) welcomes the Matthew Taylor Review on the changing nature of work. We have highlighted five particular areas of focus for the self-employed and small businesses:

1. Proportionate and targeted measures to **tackle false self-employment**. We believe the freedom to contract should remain paramount and would not be supportive of a default presumption of an individual being treated for tax purposes as an employee, unless they or the contracting authority are able to prove otherwise. A default assumption would be a blunt tool and would reduce the ability of the contracting authority to adapt to the dynamic, ever changing nature of work. Instead the focus should be on developing small business smart tools to assist small businesses in correctly establishing employment status. Prevention is clearly better than cure and this should be reflected in any basket of measures implemented to tackle self-employment.

2. Maintaining the **preferential treatment of the genuinely self-employed in the tax system**. The UK's army of 4.8 million self-employed are the backbone of this country and should be recognised for the value they add both to the economy and their local communities.

3. Correction of **disparities in the welfare system** between the treatment of the self-employed (as defined in employment law) and the employed. We welcomed the announcement in the March 2017 Budget of a review of parental benefits. Nonetheless, we would like to see the scope of the review extended to cover other facets of the benefits system. We can only provide adequate protection for self-employed people by undertaking on comprehensive review of the system.

4. Embracing the ambition of improving the **quality of work**, and achieving this agenda without imposing **burdens** on small businesses, while also recognising that the flexibility of the UK's labour market is a key driver for the increase in the number of jobs.

5. To deliver opportunities for all people throughout their lives it is important that there is a focus on ongoing **skills** development – this should include small business owners, their staff and the self-employed. We are particularly supportive of life-long learning and small businesses should be supported to up skill both themselves and their staff.

Since the recession, the number of people classifying themselves as self-employed has grown significantly and now stands at the highest level in 40 years. More and more people are going it alone regardless of their circumstances. Setting up a

business has never been easier, aided by new technology and commercial web platforms, which are helping to widen access to entrepreneurship.

The growth in self-employment does not appear to be simply a cyclical phenomenon; rather it amounts to a structural re-shaping of the economy and labour market that began in the early 1980s and, after a short period where self-employment flat-lined and fell in the 1990s, re-emerged in the early 2000s. Today, over 15 per cent of the workforce is self-employed, up from 12 per cent in 2000 and eight per cent in 1980. As a result, since 2008 self-employment has been responsible for nearly half of all jobs growth in the UK. At the same time, the Resolution Foundation have shown that self-employment growth since the recession has been dominated by 'privileged' sectors of the economy, such as management consultancy, public administration and legal services.

FSB is speaking on behalf of the genuinely self-employed. There is a key distinction between the genuinely self-employed and the falsely self-employed. The rise of large scale platform businesses such as Uber and Deliveroo has brought into sharp relief the distinction between self-employment and worker status in particular. However, it is important to distinguish between:

- The contribution of large scale platforms to the overall growth in self-employment; where the recent Royal Society for the of Arts (RSA) report estimates that only 16 per cent of those in the gig economy work as drivers or delivers (i.e., the typical group we imagine as gig workers as a result of high profile cases, such as Uber); and
- The distinction between large scale platforms and other platform related activities involving the sharing rather than the selling of assets (including the sharing/collaborative economy).

The recent Uber, Pimlico Plumbers and CitySprint judgements have brought into sharp relief those who have been working through platforms on a self-employed basis, but who had adjudged (in some instances subject to an appeal) to be workers.

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Section 1: Employment Status and Tackling False Self-Employment

Establishing whether someone is an employee, worker or self-employed can often be an essential question for a business. This question has implications for: employment rights, vicarious liability in tort law, and can have significant tax implications for the business.

Clearly, employment status needs to be established easily and quickly at the outset of a new working relationship. The current system is underpin by the freedom to contract and enforced largely through employment tribunals, which apply a principles-based approach against the facts of the relationship in establishing the employment status. Ultimately, the flexibility given to the courts in interpreting a work arrangement means that there is scope to accommodate changes in the labour market through adaptions in case law. The downside of this flexibility is that there is reduced clarity at the outset of a relationship and small employers must take on the risk of correctly establishing the employment status of a new working relationship.

A minority of employers have taken advantage of the uncertainty inherent to the start of a new working relationship by imposing the self-employed status where it does not reflect the reality of the relationship. 'False self-employment' arises when a business deliberately endeavours to impose an erroneous status on a worker with the intention of lowering their tax liability (e.g., by not being required to pay employer national insurance contributions) and to circumvent employment protections. Research from the Citizens Advice Bureau (CAB) suggests that nine out of 10 self-employed people are genuine.[1] To distinguish between genuine and false self-employments CAB used HMRC's Employment Status Indicator Tool. The results of this analysis align with FSB's view that the vast majority of the self-employed are genuine. This Review must ensure that any policy intervention to tackle the relatively small numbers of falsely self-employed is targeted and does not change the nature of self-employment for the millions of genuinely self-employed people.

FSB members work hard to comply with the law and want to do the right thing. At the same time, many small businesses have limited time and resources, which means they struggle to properly interpret and apply case law to both working relationships and understanding the employment contract and resulting entitlements. FSB helps many of our members understand the true nature of their contracts through our 24/7 legal advice helpline. In 2016, the helpline received over 130,000 calls, where about 60 per cent of the inquiries were related to employment law. We believe the Government can and should do more to support small businesses in

[1] Citizens Advice Bureau (2015) 'Neither one thing nor the other: how reducing bogus self-employment could benefit workers, business and the Exchequer' retrieved from https://www.citizensadvice.org.uk/Global/CitizensAdvice/Work%20Publications/Neither%20one%20thing%20nor%20the%20other.pdf

correctly establishing the employment status of individuals they wish to 'take on'. This could range from online tools through to effective small business support.

Understanding the current framework for employment status

Under employment law, an economically active individual can be broadly categorised as a worker or self-employed person. Workers are further divided into two categories: employees and limb b workers, where the latter are commonly known as 'workers'. Both employee[2] and worker[3] status are defined in statute, while self-employment is not. The self-employed have very limited number of protections, such as discrimination and health and safety protection. Workers are entitled to a select number of employment rights (e.g., paid annual leave, rest breaks and the National Living Wage (NLW)), while employees are entitled to the same rights as workers with an additional set of rights specific to the employee status (e.g., unfair dismissal and family-friendly rights).

It is also worth considering the broader category that might sit on top of all these statuses: the economically active individual. This status would encompass employees, workers and the self-employed – but would also extend to what might be described as small business owners. There has been less attention paid to the distinction between a self-employed person and a business owner, but understanding the difference can shed some light on segments of the self-employed population. A self-employed person would also be a small business owner if:

- They earn an income without working for another person or company (i.e., not under a contract of employment or as a worker), and
- They have a drive to expand the business or innovate in their field, or
- The business included a degree of capital investment and risk, or
- The business employs workers.

Of course, small business owners can genuinely be considered self-employed people. Many of our members with growth aspirations and employees would still declare themselves to be 'self-employed'. Considered alongside RSA's Six Tribes of Self-Employment – a useful typology for appreciating the heterogeneity of the self-employed – most small business owners would likely classify themselves as 'Classicals' or 'Visionaries'. These are the more growth-oriented and entrepreneurial sections of the self-employed community.

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[2] Under section 230 of the Employment Rights Act, the statutory definition of employee is "an individual who has entered into or works under a contract of employment". Where a contract of employment means "a contract of service or apprenticeship, whether express or implied, and (if it is express) whether oral or in writing".

[3] Under the ERA, worker means "an individual who has entered into or works under—
(a) a contract of employment, or
(b) any other contract, whether express or implied and (if it is express) whether oral or in writing, whereby the individual undertakes to do or perform personally any work or services for another party to the contract whose status is not by virtue of the contract that of a client or customer of any profession or business undertaking carried on by the individual"

For the purposes of tax law, a person can be found to be either an employee or self-employed. Unlike in employment law there is no third way (i.e., no equivalent to worker status). The Employment Status Report by the Office of Tax Simplification consider the merits of adding a third category, similar to a worker in employment law, for tax – but this was found to likely add more confusion and complexity to the system.

Distinguishing between Genuine and False Self-Employment

Although employees and workers have a statutory definition, they both require the application of tests established in case law to determine the dividing lines between employees, workers, and the self-employed. The range of statuses, and the case law that delineates them, has meant that small employers and workers struggle to get their classification right. These difficulties are further complicated by the fact that an employment tribunal will decide on a matter for employment law purposes, whereas a tax tribunal will decide on tax issues, and they could reach different results. Therefore, someone can be considered a worker or employee under employment law, but be considered self-employed for tax purposes.

BEIS' Employment Status Review highlights that there is an 'irreducible minimum', where there can be no contract of employment unless *all three* of these features exist. These are:

- Mutuality of obligation (i.e., the obligation to provide and perform work);
- Commitment to personal service (i.e., can the worker send a substitute); and
- A high degree of control over the worker.

CAB applied HMRC's Employment Status Indicator Tool to identify false self-employment. For the purposes of employment law, the presence of the irreducible minimum in a supposed self-employment contract would be a more effective method of identifying false self-employment (i.e., a new employment relationship that exhibits all three features of the irreducible minimum, while claiming to be self-employed arrangement, would likely be false).

Therefore, FSB recommends that the Review:

- Acknowledges and seeks to maintain the benefits of the UK's flexible labour market – with the resulting record high levels of employment.

- Uphold the freedom to contract and not endorse a default presumption of employment at the outset of a working relationship.

- Focus on a strategy of education and enablement for the vast majority of self-employed that are genuine and want to comply with the law, while also advocating for the use of the 'irreducible minimum' as a simple test that can be used in guidance to support employers and workers.

- Suggests proportionate measures against the falsely self-employed to level the playing field for those that are working to comply with the law.

- Does not propose changes that affect all self-employed people while assuming that all of these people are gig workers or in some form of precarious employment. The self-employed population in the UK is very diverse and blanket policy changes, like the National Insurance contributions (NICs) increase, do not recognise this heterogeneity.

We also acknowledge that there could be further discussion around:

- Establishing a 'fast track' for tribunal cases on employment status and tribunal fees should be reduced for these particular cases, but not eliminated to allow legitimate claims to be taken forward.

- Shifting the burden of proof from the worker to the employer in employment tribunals for cases on employment status, but the freedom to contract at the outset of a new working relationship should remain paramount.

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Section 2: Tax Simplification and the Tax Treatment of Different Legal Forms

FSB strongly believes that any changes to the tax system must not be rushed and only implemented following a careful review of how such proposals will impact upon the productivity and contribution that the self-employed make to the UK economy.

The 2017 March Budget announcement to raise Class IV NICs on the self-employed did not undergo proper review or consider the risks, the lack of protections, the administrative burdens and lack of rights that self-employed people face. It also sat in stark contrast to the cut in corporation tax for all companies, including large and multinational firms.

The genuine self-employed take significant risks by setting themselves up in business, while often paying themselves below the NLW. Accordingly, any proposed changes in the taxation of labour policy should focus on achieving greater simplification across the UK's tax system, which has long been a major policy priority for FSB. This is not least because the average small business spends over three hours a month dealing with tax administration tasks. This burden is likely to be even more pronounced for the self-employed. Indeed one of the arguments for preferential treatment in the tax system for the self-employed is to alleviate the additional costs of tax administration. The benefits of tax simplification are broad ranging – from cost savings to the stimulation of growth in the economy. Streamlining current processes for meeting tax obligations benefits both business and government: it reduces time and resources spent by HMRC on policing tax affairs; and in turn stimulates small business growth and competitiveness by enabling businesses to spend less time fulfilling tax obligations instead of running their business.

Taxing labour equally

The current argument of taxing labour equally misses a key distinction between the genuinely self-employed and an employee: that a genuinely self-employed person is taking on risk. An employee is remunerated for their labour, whereas the compensation for a self-employed person is often a mixed return on labour and capital. Many of our members have mortgaged their homes to be able to finance their new business idea before striking out on their own. The Institute for Fiscal Studies acknowledged the argument that "often people running their own businesses are doing something fundamentally different from employees, including investing, innovating, taking risks and other such entrepreneurial behaviour".[4] Clearly this is not universally true of all self-employed people, even some of the genuinely self-employed will exclusively rely on labour income.

[4] Institute for Fiscal Studies (2017) "Green Budget: tax, legal form and the gig economy" Retrieved from https://www.ifs.org.uk/uploads/publications/comms/R124_Green%20Budget_7.%20Tax%2C%20legal%20form%20and%20gig%20economy.pdf

At the same time, no band aid solution will successfully disentangle the varied tax treatment that currently applies to different legal forms. The complexity within the current system, alongside the pace of many of the recent changes in business taxation, have demonstrated the wrong way to implement tax policy. To provide certainty and reduce the complexity that can often result in confusion over the appropriate legal form – the Government should undertake a fundamental review into the tax treatment of legal forms. This should be backed by public consensus and take account of the value of the protections and benefits received in different forms.

Intermediaries legislation

The Government has recently legislated for new rules over the scope of intermediaries legislation (IR35) affecting those working in the public sector. FSB, alongside other business groups, has already voiced our concern that the implementation of these rules may deter public sector organisations from employing many of our legitimate, fully tax compliant members. There is anecdotal evidence that public sector organisations are not assessing each case on its individual merits, but instead imposing a default position that all workers are employees. There are early signs that the recent changes to IR35 have been implemented with too little support for the public sector bodies charged with interpreting the legislation and that the tools the Government has set up to assist public sector bodies in identifying IR35 status are not properly supporting these bodies.

Therefore, FSB recommends that the Review:

- Does not advocate for short-term solutions to the tax treatment of different legal forms.
- Advocates for a more stable business taxation system, which adheres to the principles of the Business Tax Roadmap, so that small businesses have the certainty they need to be able to invest and grow.
- Calls on the Government to continue to focus on simplifying the tax system to reduce administrative burdens for small businesses.
- Calls on the Government to produce guidance for tax and employment status needs to be more accessible for small businesses and the self-employed, as well as timely and user-friendly.

Section 3: Addressing the Risks Faced by the Self-Employed

The self-employed do enjoy an advantageous NICs rate compared to employees, but they are taking on considerable personal risk in striking out alone. Employment law experts describe this situation well: "to put it shortly, the independent contractor may be in a better monetary position while working, but at a grave disadvantage if he or she falls off a ladder".[5] For example, FSB's 2016 self-employment report found that income insecurity was the biggest challenge for the majority of our self-employed members.[6] This includes those that were particularly worried about securing new business or not getting paid if they fall ill. Furthermore, 8 per cent of members ranked 'struggling to balance work and family life' as their biggest challenge, with 22 per cent ranking this in their top three challenges. Self-employed people and small business owners are aware that they are foregoing certain protections by deciding to work for themselves, but there are certain areas of social policy where the Government should provide a baseline of provision for all workers – irrespective of their legal status. This should be particularly the case where the Government provides a universal social protection for all citizens. This would include the provision of an income floor for all citizens (through the state pension or through Universal Credit (UC)). FSB welcomes the action that has been taken on this, including reforms to state pension. There are other areas of social protection where the next Government should look to increasing its support to the self-employed, particularly: bringing the Maternity Allowance closer in line with Statutory Maternity Pay, and exploring the feasibility of providing Statutory Paternity Pay and Statutory Adoption Pay to all eligible self-employed parents.

There is also a role for Government in maintaining a minimum level of income for everyone, whether they are of working age or retired. Recent reforms to the state pension system will now see the self-employed being have more equal access to the state pension for the first time. Currently, around 18 per cent of the self-employed access Working Tax Credits, yet UC is not fit for the self-employed. UC needs to be made more compatible with self-employment and the changing world of work. UC should support all viable forms of self-employment, including individuals with fluctuating profits and seasonal businesses, by simplifying the reporting requirements and applying the Minimum Income Floor on a quarterly or annual basis.

Self-employment is one of the most effective routes in moving people from inactivity into economic activity. To support those moving into self-employment from unemployment, the next Government should extend the UC start-up period to three years, to support people in the first vulnerable years of trading. Supporting people to

[5] Smith, I. & Baker, A. (2015) Smith & Wood's Employment Law, 12th Edition, Oxford University Press, p. 39.
[6] Members ranked their top challenge as: 'not knowing how much income I will have from month to month' (18%), 'finding and securing new business' (18%), not getting paid if I fall ill or have to take time out of my work for personal/family reasons' (17%) – for a total of 53 per cent. Based on a survey of 1,600 self-employed FSB members.

move from unemployment into a meaningful and fulfilling career is not only creating economic activity, but adding to social wellbeing.

There has also been a great deal of discussion on whether programmes like pension auto enrolment could be extended to cover the self-employed. FSB believes there is scope for extending *the principles* of automatic enrolment to the genuinely self-employed, but the existing arrangements for employees would not be fit for purpose for the self-employed. Our 2016 self-employment report, *Going it alone, moving on up*, found that only 30 per cent of our self-employed members were saving for retirement through a private pension. Worryingly, 15 per cent of respondents said that they were making no provision for their retirement whatsoever (18 per cent of women and 14 per cent of male respondents selected this option). To help increase retirement savings amongst the self-employed, our report recommended that self-employed people should be given the option to opt into a private pension when completing their Self Assessment. This voluntary opt-in should be supported by the practical application of behavioural economic theory, by providing a simple enrolment journey for the self-employed, while also offering straightforward default solutions to limit the number of choices required when a self-employed person decides to save into a private pension.

Setting aside money each month to go towards a pension can be a significant challenge for many self-employed people, particularly those on low or fluctuating earnings. This problem is often compounded by the prevalence of late payments, which can bankrupt a self-employed person who completes their work on time and with reasonable care and skill. It is therefore unsurprising that levels of pension saving among the self-employed is also markedly lower than among employees. To address this issue, Government should consider creating private pensions that self-employed people can draw on if they experience a drought in income. Obviously, early withdrawals would have tax implications, but the self-employed would feel more comfortable saving for retirement if they knew they could draw on their pension pot in times of need.

Of course, there are limits to role of the state in providing direct spend to addressing the risks of the self-employed. This includes benefits like Statutory Sick Pay, the right to request flexible working, and the right to a minimum level of paid holiday. These are rights and benefits that arise as a result of a contract of employment, or as a result of being found to be a worker, and self-employed people have willingly given up the benefits of having an employer.

Of course, this does not mean that issues like income protection need to become entirely individualised risk. There are international examples of collective models of self-employed people that organise to reduce some of the risks they face through striking out on their own. Though many of these initiatives are relatively unknown in the UK, they could provide new models or solutions to help the growing number of self-employed people. That is why FSB and the RSA are collaborating on a new

project to identify and understand promising international examples of initiatives that bring the self-employed together to reduce the risks they face. In doing so we hope to expand the conversation around self-employment to look at how the self-employed can be incentivised to assist one another.

Yet, while we will continue to push for further extensions in social security, there are certain areas where there is no recent precedent for the government to intervene. The market also has limitations. There are myriad financial products offered by the private sector, spanning pensions, income protection insurance, business bank accounts and invoice accounting/factoring. However, where there are few profits to be made, and where the risk is deemed too great, the market is rarely forthcoming. Prices can also vary widely from person to person leading to the exclusion of some groups. This is particularly true of income protection insurance, which involve medical checks and where premiums can be unaffordable for older workers.

Against this backdrop, more of the self-employed are turning to a third source of support: ***one another***. Models of 'self-organising' range from longstanding initiatives like co-operatives and guilds through to more recent innovations such as mutual sick pay funds and cash-pooling schemes. These initiatives vary widely in their scope of activities, membership base and operating models, but the underpinning rationale is the same: that the self-employed can achieve more together than they can alone.

FSB and the RSA's new project seeks to identify, understand and champion the most promising models of self-organising – both those that have emerged in the UK but also overseas in places like France, Holland and Belgium. Our ambition has been to better understand how these schemes operate in practice, their strengths and limitations, the scope for scalability and replication, and the conditions required for them to be successful.

Some of the initiatives we have explored so far include:

- Bread Funds, Holland – An income protection scheme where small groups of self-employed workers pool money into collective sick-pay funds, to be accessed during times of ill health. Bread Funds started in Holland, where the movement now has 10,500 members split across 245 groups. Each group usually has between 25-50 members who can draw down on the funds when out of work for more than 30 days, with a time limit on fund withdrawal of two years. Unlike many private income protection insurance schemes, there are no medical checks upon joining and members can cancel at any time. Members are also encouraged to support one another practically, for example by helping with other people's workloads if they are too ill to finish it by themselves. Stuart Field, a UK-based social innovator with Dutch connections, plans to launch UK pilots in London and Nottingham, albeit under a revised model due to our different regulatory system.

- SMart, Beligum – SMart is a Belgium-based co-operative that began life by helping creative professionals manage contracts and other forms of administration. Today the organisation is open to the self-employed from all sectors and offers a much broader package of services, including business support, an advice line, business training, insurance products and co-working spaces. Most significant is its 'Mutual Guarantee Fund' (MGF), which is in effect a pool of cash built by members that can be dipped into while they are awaiting payment from clients. The MGF means that all members are paid within 7 working days of the payment schedule they agreed with their client, while SMart will take on the task of chasing clients for the funds, and absorb the costs should they not pay. The cost of becoming a member of SMart in Belgium is 6.5 per cent of revenues, which is competitive with the use of private invoice factoring companies in the UK (who offer few of the additional benefits of SMart). SMart has 80,000 members in Belgium and now operates in eight other countries.

- CoTech – CoTech is a network of 23 'tech for good' worker co-operatives in the UK. One of the principal aims of CoTech is to facilitate talent sharing among the member co-ops and in doing so increase the market share of ethical tech companies. Worker time is charged at a cost rate for internal projects (e.g. developing a co-op member's website) and at usual commercial rates for external projects. CoTech also give a share of their profits to good causes through a co-budgeting mechanism, for example programmes that encourage more women to enter the developer/programmer profession. 'Good causes' sometimes constitute supporting co-ops and workers in the CoTech network, for example paying for networking or training events. There is no minimum contribution, however members are expected to contribute a reasonable amount to 'good causes' when able to.

Preliminary observations from the research

Each of these initiatives has potential, and some like SMart and Bread Funds have a longstanding track record in other countries. But we recognise that even the best models of self-organising has their limitations. Based on our interviews with the founders of these schemes, and a roundtable with self-employed FSB members, we have identified several conditions necessary for self-organising to flourish.

- Sustainable funding – Some schemes have received outside support to get up and running, whether from a philanthropic foundation or a city authority. This can be vital in the first few years of operation when they are trying to recruit members (see below). However, it also leaves them vulnerable if they are solely reliant on outside assistance and find this unexpectedly withdrawn at

short notice. Self-organising models need a sound financial plan and a steady stream of income from different sources, including the members themselves.

- Critical mass – New self-organising schemes take time to find their feet and build up a membership base. Most need to reach a minimum number of members to be effective and financially sustainable. For example, every Bread Fund group requires at least 25 members before the vehicle of a collective sick pay fund becomes viable; less than this and a single claim could sink the fund. Yet the schemes can also find themselves in a catch 22 dilemma: they need members to be viable, yet business owners will only join once they see the scheme has proven safe and workable.

- Immediacy – The roundtable we held with FSB members revealed that the schemes which deal with day-to-day problems are more appealing to the self-employed than those which address a concern far from the forefront of people's minds. For example, many roundtable participants were drawn to the Mutual Guarantee Fund model of SMart because they could see it alleviating their recurring cash flow problems. Schemes that focus on the 'immediate' are more likely to have traction.

- Leadership – None of the aforementioned schemes – Bread Funds, SMart or CoTech – emerges of their own accord. They were once the visions of passionate individuals who saw a problem and took decisive steps to address it. But while every initiative needs non conformists to get off the ground, relying on 'hero leaders' can backfire in the long term. Impassioned figureheads may burn out if there is no one to share their load with, or they may find the organisation outgrows their style of management. The most successful self-organising models find ways of evolving their leadership regimes with minimal disruption.

Recommendations from the research

In June we will publish our full findings, which will include more detailed descriptions of our case studies, along with recommendations for how these and similar schemes can be strengthened, scaled and replicated.

The work will be looking at the following:

- Plugging into self-employed networks – Self-organising models could boost their membership numbers by connecting with existing networks of business owners, for example co-working spaces, FSB regions or Local Growth Hubs. Partnerships could be forged to offer members deals if they join affiliated schemes.

- Awareness raising at a local level – Economic development chiefs in local authorities and housing associations should raise awareness of self-organising initiatives among local businesses, for example through events and roadshows. Business support groups working with local authorities should consider the establishment of self-organising schemes as an additional offer to their funders.

- Integration with the New Enterprise Allowance (NEA) – The Department for Work and Pensions should consider the merits of promoting self-organising schemes through the NEA. New joiners to the NEA must attend 'link up, start up' workshops, where they could be introduced, for example, to the idea of co-operatives or Bread Funds. More significant would be a government partnership with a more established organisation like SMart.

- Clarify the nature and scope of laws – Laws relating to financial arrangements that affect self-organising are not always clear. The team behind the UK Bread Funds pilot reported that there was a different UK interpretation of EU law relating to cash pooling, which meant they felt compelled to offer a revised Breads Fund model to the one operating in Holland. The government should clarify its stance on laws affecting self-organising.

- Funders should open up to self-organising – The UK's business support ecosystem is vast and relies on the generosity of funders like philanthropic foundations and corporates. While they traditionally support initiatives that upskill or mentor business owners, we would urge them to think more laterally and consider giving seed funding to mutual support schemes that have long term potential.

FSB also recommends:

- That self-employed people should be given the option to opt into a private pension when completing their Self Assessment.

- That Government considers creating private pensions that self-employed people can draw on if they experience a drought in income.

- That the Government brings the Maternity Allowance closer in line with Statutory Maternity Pay, and exploring the feasibility of providing Statutory Paternity Pay and Statutory Adoption Pay to all eligible self-employed parents.

- That the Government extends the UC start-up period to three years and simplifying the reporting requirements and applying the Minimum Income Floor on a quarterly or annual basis.

Section 4: Fair and Meaningful Work

FSB is supportive of high-quality, fair and meaningful work. At the same time, it is important to acknowledge that the UK labour market is performing very well – with the most people in work since records began. This success is attributable to the small employers and self-employed that are the most common routes for people to move from inactivity into work. Eighty-eight per cent of those moving from unemployment into work, and 95 per cent of those moving from inactivity to economic activity, do so either through gaining employment by a small business, or by setting themselves up as one. Our evidence shows that self-employment generally provides high-quality work for our members – with 60 per cent saying that they plan to remain self-employed in five years.

FSB believes that health and wellbeing at work are essential for both individuals and employers. At the moment, small businesses struggle to offer the enhanced benefits that larger firms do. This affects them in a competitive jobs market. FSB firmly believes that the nature of small business employers, often characterised as a family environment, means they are at the vanguard of good treatment of their employees. This is likely because of fewer communication issues and greater informality, such that it is easier for a small business to create a satisfying work environment. More generally, in terms of labour market inclusivity – there is evidence of the progressive attitude of small businesses as employers in relation to wellbeing at work and in particular the role that the self-employed and small businesses have played in bringing those who have been furthest from the labour market, back into employment. We know that small firms employ more people with disabilities – both as an absolute number, and as a proportion of their workforces. However, full employment will be impossible to achieve without further progress being made on the disability employment gap. Government programmes such as Access to Work have been successful to a point and the next Government should look at ways to improve these.

Health and wellbeing at work is essential for both individuals and employers. At the moment, small businesses struggle to offer the enhanced benefits that larger firms do. This affects them in a competitive jobs market. The next Government should look at potential group collective insurance schemes for small businesses as an affordable way to offer better employer benefits to their staff and the self-employed and to provide more adequate protection.

There are important steps being taken through the independent review of mental health at work led by Lord Stevenson, as well as the cross-party Jo Cox Commission on Loneliness. It is important to acknowledge the self-employed and small business owners also experience challenges in the workplace and need to be considered.

It is also important to note that the costs of employing someone are rising fast, and are likely to continue to increase. FSB estimates the average small business employer will need to fund around £2,600 of new employment costs this year due to

new pension auto enrolment costs, the higher NLW and resulting increase in employer NICs.

Some areas of the labour market suffer from particularly poor practice and lack sufficient enforcement. The current status quo means that some of our members are unable to compete on a level playing field since rogue employers are undercutting legal requirements. We were encouraged to see the appointment of Sir David Metcalf as the Director Labour Markets Enforcement and hope that his upcoming strategy will lay a roadmap for efficient and effective enforcement. We believe that there is merit to allowing for increased enforcement on a sector-by-sector basis where a large number of employers in a sector call for more enforcement to weed out bad practice. This volunteeristic approach could efficiently tackle some of the areas where legal requirements are systemically not met.

Self-employment and business ownership has been an important route for women returning to work. If women were to set-up businesses in the UK at the same rate as men, there would be a huge boost to growth and prosperity in the UK and would help to make the small business community even more vibrant and innovative. However, despite increasing numbers of self-employed, the UK still lags behind some of its competitors in the number of women-led firms. In addition, women-led businesses are under-represented among the fastest growing firms and, on average, they tend to operate newer businesses that have lower annual turnover and employment levels than their male counterparts. In part, this is due to these businesses being more highly concentrated in health and social work and community, social and personal services. These sectors tend to have lower levels of business growth and smaller turnovers.

Our research finds for women business owners balancing work and family life is the biggest challenge, identified by over 40 per cent of our female members.[7] Women continue to be more likely to cite 'personal reasons' in the event of closing their business, while men are more likely to report 'business failure', and the closure of women-owned businesses tends to peak between the ages of 25 to34. Childcare and parental policies must be looked at to ensure there is equality for women in business, including continuing with the review into parental benefits for the self-employed. In addition, the Government should look to address some of the barriers that prevent women from starting-up or growing their business by improving data collection on the number of women-led firms. It should also help increase the visibility of female role models and improve access to finance, business support, training and mentoring which are traditionally less used by women entrepreneurs.

[7] FSB, Women in enterprise: The untapped potential, http://www.fsb.org.uk/docs/default-source/fsb-org-uk/fsb-women-in-enterprise-the-untapped-potentialfebc2bbb4fa86562a286ff0000dc48fe.pdf?sfvrsn=0 April 2016

Therefore, FSB recommends:

- That whilst we are supportive of light-touch transparency measures, there should be no new reporting requirements imposed on small employers – such as the requirement to report workforce composition – as these can place disproportionate burdens on small businesses.

- That the Taylor Review appreciate the considerable financial strain placed on small employers as a result of existing Government policies like pension automatic enrolment and NLW, as well as the uncertainty arising from Brexit.

- That the Government provide employers with incentives to reduce the instability of work, for example through a top up on the Employment Allowance for the employer NICs of full-time permanent staff.

- A review of how existing business data sources to improve the scope and regularity of gender specific data on business ownership. This would help provide policymakers with a stronger evidence base on women entrepreneurship.

Section 5: Skills and the Changing Nature of Work

Data collection on the future labour market

Collecting and sharing intelligence on what the future labour market will look like allows us to predict new and emerging jobs and the skills that will be required to perform them, and to prepare people to take advantage of these opportunities. There are a number of organisations providing in-depth analysis of UK employment and skills trends. Arguably the most authoritative work has been conducted by the UK Commission for Employment and Skills (UKCES), in particular the *Working Futures* project, which provides a medium- to longer-term picture of employment prospects by industry, occupation, qualification level, gender and employment status for the UK and for nations and English regions, and the foresight study *The Future of Work: Jobs and Skills in 2030*.

Aside from its quality, breath and scope, UKCES research has provided informed and trusted insight for many stakeholders. When the withdrawal of UKCES's funding for 2016/17 was announced, FSB noted with interest Government's intention that some of the organisation's key functions would be absorbed by official departments, for example management of the Employer Skills Survey and the Employer Perspectives Survey into BEIS. However, it was also announced that wider research partnerships, other research and LMI-related work was to be brought to an end during the first half of 2016. As yet, no clarity has been provided as to the future of the *Working Futures* project.

This resource is not only a useful tool for policymakers and businesses, but young people starting out, to more experienced workers looking for a career change. As such, and to enable us to effectively prepare for widening skills gaps, we encourage Government to set out plans for how it intends to continue and build-on the *Working Futures* project and ensure that any data published in the future matches the standard achieved by UKCES.

Support skills development of small business owners and their staff

Developing and updating skills is essential for businesses owners, but also their staff; particularly in the context of a rapidly modernising labour market. For business owners, having the right skills is vital to ensuring that they are able to take advantage of new business opportunities and create more robust strategies for growth; as employees, learning new skills improves our performance and helps us to branch out into new areas of expertise, which in turn significantly improves our chances of success as economic beings.

Despite this, small businesses struggle to prioritise management skills. FSB research on leadership and management has previously found that only a quarter of small business owners (25%) have undertaken specific management training in the last 12

months, and that roughly the same percentage of firms (26%) have never undertaken such training.[8]

In addition, while almost all (91%) of business owners recognise the value of investing in staff training and development, less than half (43%) said they did so.[9] We also know that only a fifth of small firms (19%) offer external management training to their staff; however, small businesses are more likely to invest in external training for business purposes, such as marketing, finance and digital, than in other types of training.[10]

The cost of training (43%) has been identified as the key barrier preventing many small employers from providing work-related training for their workforce. A further third (34%) said a lack of relevant training is a challenge, and we also know that some businesses find it different to interpret the quality of a particular training course or provider.[11]

Training in the workplace plays an important role in helping small businesses to be successful, agile and productive. However, behind every business is a business owner, looking to take advantage of new opportunities in the modern economy that can only be realised if they have the vision, leadership and management capability. The workplace is also a central source of skills development for staff.

Small businesses need support and guidance to find their place in the advancing economy and take advantage of opportunities. It is important that policymakers map the existing landscape of training provision, including leadership and management, across a range of considerations (sectors and industries, size of business, geographies, affordability and whether the support is delivered by public- or private-sector bodies) to gain a comprehensive and clear picture of what leadership and management support is already available, to identify any gaps and to be able to cross-reference existing support with areas and level of need. In addition, training providers should offer more modular and online courses, which need to be accessible, flexible and affordable.

Initiatives aimed at encouraging initial take-up of training, including 'try-before-you-buy' offers, should be explored. Our research suggests that small businesses are reluctant to allocate funding for training purposes and that there is a lack of confidence in the quality and relevance of training provision. Identifying solutions that tackle the barriers to investment, therefore – including cost and perceived relevance of training in the workplace – must be prioritised.

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[8] FSB, Leading the way: Boosting leadership and management in small firms, March 2016 https://www.fsb.org.uk/docs/default-source/fsb-org-uk/leading-the-way-boosting-leadership-and-management-in-small-firms.pdf?sfvrsn=1

[9] Ibid

[10] Ibid

[11] Ibid

Lifelong learning and supporting up- and re-skilling

FSB's membership is diverse, and includes young business owners just starting out as well as those who have turned to business ownership later in life. With the way we approach employment changing, we feel it's critical for our members – and our future members – to have access to learning to boost their skills and confidence in familiar and unfamiliar areas. It is for this reason that we welcomed the announcement in the Spring budget that by 2019 £40m would be spent testing the effectiveness of different approaches to lifelong learning.

One of the most important areas for small businesses is digital skills. FSB research has found that 42 per cent[12] of our members think digital skills are important for future business growth, but that a lack of relevant digital skills is a barrier to doing more online. At present, half (51%) of small firms do business online, and although currently 62 per cent of our members are using social media, small businesses need further skills support in this area.[13] We also found that younger business owners are more likely to view their use of technology as being important to their business. When asked about gaps in the general skills matrix of candidates being recruited, across almost all measures, older workers were viewed as more likely to have the necessary skills. There is, we believe, a clear need to ensure that skills acquisition, including digital skills, is available to all throughout their working lives, and within easy reach.

With this in mind, and with many business owners struggling to keep pace with technological developments, FSB believe it will be important when testing 'ambitious new approaches' to learning that a range of solutions are developed to meet the needs and preferred approaches of small firms. For example, opportunities for face-to-face or in-person training and learning should not lost in favour of purely innovative, digital approaches to training. We are pleased to note the Government's intention to do direct outreach with individuals through 'contact moments' and community learning centres, to reach business owners who may not have the digital skills or confidence to seek support and training online. Involving key partners recognised by local businesses could help ensure coverage and availability but also inspire trust is the usefulness and quality of support to upskill; in some areas this may be the Local Enterprise Partnership, for example.

Finally, FSB believe that with self-employment and business ownership on the rise, attention should be paid to testing approaches to lifelong learning that engage individuals of all ages in learning the basic business skills to 'go it alone'; particularly those considering changing careers, experiencing a change in personal circumstances, or those who are looking to re-enter the labour market.

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[12] FSB, Reassured, optimised, transformed: Driving digital demand among small businesses, September 2015 http://www.fsb.org.uk/docs/default-source/Publications/reports/fsb-telecoms-report---september-2015(2).pdf?sfvrsn=0

[13] Ibid

Preparing the next generation for the modern labour market, including entrepreneurship

Relatively recently most people leaving school and university could expect to have life-long careers with large, recognised companies and employers. Now, 99.3 per cent of all UK businesses are small[14] and for many young people the prospect of working for one employer for the whole of their working life is neither a preferred or likely option.

One of the biggest and growing trends in the last decade has been a rise in self-employment, with more and more people choosing to start their own businesses. As such, young people need to be prepared for the changing world of work and equipped with the skills and the tools they need to navigate the modern labour market. High quality and independent careers advice, information and guidance is essential to improving young people's labour market chances at a time of significant change. Careers advice should cover the whole range of education, training and employment pathways – including entrepreneurship and business ownership.

As part of this, FSB have welcomed a review of the current careers offer and the Government's intention to publish a comprehensive strategy later this year for careers information, advice and guidance. However, we would like to see consideration being given to how the careers strategy could help young people to learn more about self-employment and entrepreneurship. As representatives of small business and the self-employed, FSB is an advocate of enterprise education. Learning about enterprise and self-employment can help to embed key skills and knowledge both for future entrepreneurs and employees, giving young people better understanding of their strengths and weaknesses and helping build communication, teamwork and other skills.

In 2014 the Government announced they were taking forward Lord Young's proposal for the introduction of an enterprise passport - a digital record of all extra-curricular and enterprise-related activities that students take part in throughout their education. For businesses looking to recruit, the passport could help to provide an understanding of a candidate's capacity for enterprise and overall employability skills, alongside their academic qualifications. As part of the review into current careers provision and formulation of a new careers strategy we believe that the Government should consider developing and implementing a passport to promote the role of enterprise skills and development.

[14]https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/559219/bpe_2016_statistical_release.pdf

Therefore, FSB recommends:

- That Government set out plans for how it intends to continue and build-on the *Working Futures* project and ensure that any data published in the future matches the standard achieved by UKCES.

- That policymakers map the existing landscape of training provision and identify solutions to tackling the barriers to investment in skills, including cost and relevance of training in the workplace.

- When testing 'ambitious new approaches' to lifelong learning, Government should ensure that opportunities for face-to-face training and learning are not lost in favour of purely digital approaches to training. Government should also explore ways to engage individuals of all ages in learning the basic business skills to 'go it alone'; particularly those considering changing careers, experiencing a change in personal circumstances, or those who are looking to re-enter the labour market.