Work in progress?

Supporting the self-employed after the pandemic

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Contents

About the author

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Sam is a Senior Research Fellow at Bright Blue, with a focus on economic policy. At Bright Blue, Sam has previously co-authored a report on reforming taxes on work and wealth and a report on the case for a new pensions commission. Before joining the team, Sam worked at the Policy Research Unit in Westminster, drafting correspondence and briefings for MPs.

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Survation carried out the fieldwork for this report and I would like to thank Madhur Mehra and the rest of the team for their hard work.

The fieldwork included depth interviews and polling. Forty-three semi-structured interviews were conducted between the 10th May and 7th June 2021, towards the end of the 2021 pandemic lockdown. The polling included an online survey of 1,583 UK adults who were self-employed and in a low or middle income household and was conducted between the 8th and 22nd November 2021, towrads the latter stages of the pandemic.

Executive Summary

Self-employed people in the UK today – that is, for the purposes of this report, those who earn all or most of their income from self-employment and are not company owner-managers – have arguably never faced greater economic challenges than after the two years of COVID-19, which left many without work and led to a sharp, sustained decline in the number of self-employed people in the UK. They now also face rampant inflation and a cost of living crisis. There is an acute need to strengthen and diversify support for self-employed people, who in many ways are more financially vulnerable than employees.

As Chapter One details, before COVID-19 self-employment in the UK had undergone a significant and sustained increase, both in terms of raw numbers and proportion of the UK's overall labour force. But there is also evidence that, before the pandemic, self-employed people were more financially vulnerable than their employee counterparts, having lower earnings on average and being considerably less likely to contribute to a pension scheme.

The pandemic has left a profound mark on self-employment. The total number of self-employed people in the UK has yet to recover its pre-pandemic levels. The impact of the pandemic was also felt unevenly. While most sectors saw a decline in self-employed workers, certain sectors, in particular accommodation, food services and administrative roles, were especially hard-hit.

Admittedly, COVID-19 has been superseded by the cost of living crisis

as the biggest policy challenge facing the UK government. But much can be learned from the particular challenges of the COVID-19 period. Not only did this period serve as a natural experiment for a number of novel support schemes for self-employed people – notably, the Self-Employed Income Support Scheme (SEISS) – but also acted as a stress test for existing forms of governmental, commercial and personal support.

This report aims to identify what we can learn from the impact the pandemic had on self-employed people in low and middle income households ('low income' being an equivalised gross household income of £35,000 or less and 'middle income' up to £50,000) from different social groups and sectors and what the implications are for public policy and financial support for self-employed people. It puts forward original policy recommendations to better support self-employed people in the short term – particularly as we grapple with the cost of living crisis – and build up their financial resilience so they are better able to withstand future national and individual crises.

Focus of this report and methodology

In this report, we unearth the financial, occupational, social and psychological impacts the pandemic had on self-employed people in low and middle income households. We also assess the effectiveness of the main forms of governmental, commercial and personal financial support during the pandemic.

The report seeks to answer the following research questions:

1. How has COVID-19 impacted different types of self-employed people on low and middle incomes?
2. What did self-employed on low and middle incomes think of the Government's Self-Employed Income Support Scheme?
3. Which strategies, services, advice and products did the self-employed on low to middle incomes use during COVID-19?
4. What were the particularised experiences and challenges of self-employed people on low and middle incomes from different socio-

demographic backgrounds and working in different sectors during the COVID-19 crisis?

5. How has COVID-19 altered the experiences of and policies for the self-employed on low and middle incomes in the long-term?
6. What are the policies and products the self-employed on low and middle incomes would like and need to strengthen their financial resilience?

In order to answer these research questions, we employed four main methods, described in detail in Chapter Two. First, we conducted an extensive literature review that summarised pre-pandemic trends in self-employment, identified the key financial and non-financial impacts of the pandemic on self-employed people and provided an overview and assessment of the public policy response to the pandemic for self-employed people.

Second, we consulted with a range of academics, decision makers, opinion formers, campaigners and researchers on the impact the pandemic had on self-employed people in low and middle income households and possible policy responses.

Third, we conducted 43 semi-structured in-depth interviews with a broadly reflective sample of self-employed people in equivalised gross low and middle-income households. The sample was selected to include self-employed people from a variety of social backgrounds and in a variety of circumstances.

Finally, we conducted public polling of a sample of 1,583 self-employed UK adults in equivalised gross low and middle income households.

These research methods enabled us to identify: how different groups of self-employed people in low and middle income households have been affected by the pandemic (Chapter Three); the effectiveness of governmental (Chapter Four) and non-governmental (Chapter Five) support; and the policies self-employed people in low and middle income households think should be prioritised to better support them in future (Chapters Four and Five). The report concludes with original

policies to more effectively support self-employed people in the cost of living crisis and beyond (Chapter Six).

The impact of the pandemic

We find that the pandemic had a range of financial, occupational, social and psychological impacts on self-employed people in low and middle income households. However, these impacts were felt very differently by different groups.

Financial impact

Overall, a plurality (47%) of self-employed people in low and middle income households saw no discernible change in their overall standard of living as a result of the pandemic. However, more than one in three (35%) of respondents we polled reported a decline in their standard of living, while only 16% reported an increase.

This basic picture was broadly consistent across demographic groups; more people experienced a decrease in their standards of living than an increase. The exceptions to this were self-employed people in the highest-income households (earning above £40,000 but below £50,000) and those aged 18-24. Among these demographic groups, more people experienced an increase in their standard of living over the course of the pandemic than experienced a decrease.

Occupational impact

In response to the impact of the pandemic on their work, almost one in five (18%) of self-employed individuals in low and middle income households reported that they had 'completely changed' the type of work they do, while a further 50% (25% for each option) reported that 'most' or 'some' of their work has changed.

But the extent to which people's type of work changed varied considerably by demographic group. Younger self-employed people in low and middle income households were more likely to report having changed the type of work they do 'completely' or 'mostly' during the

pandemic compared to their older counterparts.

There was slight variation by household income level as well. The majority (58%) of those in in the highest-income households completely or mostly changed their type of work, compared to only 41% of those in the lowest-income households.

Finally, there was a pronounced variation by length of self-employment, with those in self-employment for longer being much less likely to have made major changes to their work. Only 23% of long-term self-employed completely or mostly changed their work, compared to the equivalent figure of 68% for those recently self-employed.

A plurality (36%) of self-employed people in low and middle income households reduced their working hours, and a further 33% saw no change. Only 31% of self-employed people in low and middle income households increased their hours during the pandemic. But, as with changes to type of work, different demographic groups experienced vastly different changes to working hours.

In some demographic groups, particularly younger age groups, ethnic minorities, disabled self-employed people and the more recently self-employed, a much larger proportion of people reported increasing their working hours during the pandemic than decreasing them. But among other respondents – notably, those in older age groups and long-term self-employed people – far more people reported decreasing their working hours over the course of the pandemic than increasing them.

Social impact

When asked about the biggest general negative and positive impact of COVID-19 on their lives, the most common response from self-employed people in low and middle income households in each case was related to social experiences.

Twenty-six percent of self-employed respondents cited difficulty in connecting with friends and family as the biggest negative impact COVID-19 had on their life. While this proportion was similar across most demographic groups, older self-employed people were particularly

likely to report a lack of social connections as the most significant negative impact of COVID-19. In our interviews, we also found that the pandemic put a strain on existing relationships by exacerbating political disagreements or household tensions.

Though the picture in terms of social impacts of the pandemic was predominantly negative, we also found some positive social impacts. Twenty-six percent of respondents in our polling suggested that the pandemic had brought them closer to friends and family, a sentiment that was echoed in our interviews.

Psychological impact

A significant proportion of self-employed people in low and middle income households struggled with mental health during the pandemic. Almost one in five (19%) cited deteriorating mental health as the single biggest negative impact of COVID-19 on their life. Younger people and the recently self-employed were significantly more likely to report a significant deterioration in mental health, while those in long term self-employment and older age groups were notably less likely to. In our depth interviews, interviewees frequently linked declining mental health to financial worries and loss of social contact.

However, there were positive mental health impacts for a small number. Nine percent of respondents in our polling identified improved mental health as the biggest positive impact. In our depth interviews, respondents often mentioned improved mental health in the context of a better work-life balance as a result of changes to working patterns brought about by the pandemic.

Views on financial support during the pandemic

Governmental financial support

Governmental support – comprising the Self-Employed Income Support Scheme (SEISS), Universal Credit (UC), business grants, the Coronavirus Business Interruption Loan Scheme (CBILS), Bounce Back Loans and

deferred self-assessment – was used by a significant proportion of self-employed people in low and middle income households.

Unsurprisingly, young people, ethnic minorities, disabled people and recently self-employed people were more likely to use some form of governmental financial support. More interestingly, those whose living standards increased over the course of the pandemic or who were in higher income households were actually more likely than average to use certain forms of governmental financial support, chiefly CBILS and business grants.

It is worth noting that a significant proportion of self-employed people we polled – 14% – wanted some form of governmental financial support but could not access it. The chief reasons for this were being too newly self-employed, being ineligible for support due to savings or income and finding advice and help on how to apply for support too unclear.

Governmental financial support during the pandemic was seen positively by those who used it; in every demographic group of self-employed people in low and middle income households, more people rated each form of governmental financial support as helpful than unhelpful. We used a net helpfulness rating – the proportion saying the measure was helpful minus the proportion saying it was unhelpful – to assess how well various support measures were received. The three most commonly used forms of governmental support were particularly well received; the SEISS had a net helpfulness rating of 71% compared to 65% for UC and 63% for business grants.

In some groups, however, support was much weaker than average. Those aged 18-24 were less receptive to Universal Credit, while those in mid-term self-employment were less likely than average to view the SEISS positively.

However, there were several criticisms of governmental support for self-employed people during the pandemic. The most common general criticisms of governmental financial support in our polling centred around support schemes excluding the newly self-employed, poor

targeting (support not reaching those it most needed to) and unclear help on how to apply.

In terms of changing governmental financial support for self-employed people in the future, our fieldwork found little consensus. Support was spread widely across various different policy options we presented to self-employed people in our polling. The most popular option was more grants or subsidies for self-employment (16%), followed closely by access to sick and holiday pay (11%) and more generous welfare payments (10%).

Similarly, our polling showed that there is little consensus on the question of tax. The majority of our sample did not support higher taxes on the self-employed in exchange for more state support, with 48% actively opposing such a move and another 10% answering "don't know." But a significant minority (41%) supported such a move. In our depth interviews, the attitudes of self-employed people in low and middle income households towards tax were more nuanced; many of the interviewees explained that, while they support higher taxes on the self-employed in principle, they would only be convinced by such reforms if it was clear where the revenue would go and how it would benefit self-employed people.

Non-governmental financial support

While the state provided extensive support during the pandemic, the market and personal relations also played an important role in helping self-employed people through the pandemic.

Interestingly, commercial financial support was the least commonly used form of financial support out of the three types (governmental, commercial and personal) we identified. Young people aged 18-34, ethnic minorities, respondents in London, recently self-employed people and those whose living standards increased were the most likely to have used some form of commercial financial support over the course of the pandemic.

A significant proportion (16%) wanted but were unable to access

commercial financial support. The key barriers to accessing commercial financial support were an inability to find a suitable financial product and lacking awareness of what commercial financial support was available.

Commercial financial support was viewed positively by those who used it. For each main form of commercial financial support, more people rated it as helpful than unhelpful. However, commercial financial support was received less positively than governmental financial support. No form of commercial financial report received a net helpfulness rating above 55%, whereas every form of governmental support apart from deferred self-assessment (46%) and the Coronavirus Business Interruption Loan Scheme (51%) received net helpfulness ratings above this level.

By some margin, the most commonly used form of financial support among self-employed people in low and middle income households was personal; individual savings in particular, which the majority (51%) of self-employed in low and middle income households had to use over the course of the pandemic.

People aged 18-34, ethnic minorities, more recently self-employed people and disabled people all more likely than average to rely on personal financial support. Notably, though, those whose living standards increased were among the groups that were more likely to have used a form of personal financial support during the pandemic.

As with other forms of support, personal financial support was seen as helpful by those who used it. But personal financial support was seen as less helpful than commercial or governmental financial support. The highest-rated form of personal support – own savings – only received a net helpfulness rating of 39%, lower than the equivalent figure for any form of governmental or commercial financial support.

Principles for better supporting self-employed people

While governmental support provided to the self-employed people during COVID-19 was generous and unprecedented, there were

nevertheless gaps in support that affected a large number of people. Similarly, when it came to non-governmental support, our fieldwork revealed that a significant proportion of self-employed people were not able to access the commercial or personal financial support that they needed to during the pandemic.

With the cost of living crisis now looming large, there is an urgent need to ensure that self-employed people – many of whom were financially vulnerable even before the economic shocks of the last year – are adequately supported. But it is important that efforts to reform support for self-employed people flow from clear principles.

The shortcomings of support during COVID-19 that we uncovered in our fieldwork reflect both immediate issues in the design of governmental support schemes as well as longer-term problems in terms of saving, financial choice and awareness of financial products among self-employed people.

But although it is clear that self-employed people in low and middle income households want better support, they are sceptical of delivering this through higher taxes. Government therefore needs to think creatively about reforms that make use of incentives, improve access to finance and remove some of the features of the welfare system that disadvantage self-employed people. We propose five key principles that should inform future policies to help self-employed people.

- **Rewards flexible saving.** The self-employed need to save more, especially for the long term. But they also need reassurance that they will be able to access their savings during an emergency. Any policy intervention to boost savings among the self-employed needs to recognise this and offer flexibility.
- **Widens financial choice.** As our fieldwork showed, self-employed people are often constrained in their financial choices by a lack of products, a lack of information, or both. Policy should look to diversify the financial products available to self-employed people and improve awareness among the self-employed of different

financial products.

- **Strengthens the safety net.** The lack of sick pay and protection against events such as illness was a common theme in our fieldwork. Although support for new tax-funded benefits is lacking, public policy needs to better protect the self-employed during individual and national crises. In particular, biases against self-employment currently present in the welfare system should be removed where possible.
- **Provides targeted support.** New policies should take into consideration the way that different groups of self-employed people were impacted during the pandemic and the extent they had to rely on support to manage. In particular, lower-income households should be a priority for new measures to help the self-employed. There also needs to be more attention paid to groups who were adversely affected by COVID-19 but used less support than average, such as self-employed people aged 45 and over and long-term self-employed.
- **Is fiscally responsible.** Considering the strain the public finances are currently under, proposed policies should not be too costly for government.

New policies

This report shows that self-employed people have been profoundly affected by the pandemic, in many ways more so than employees. And the full effects of the cost of living crisis is yet to materialise. Now more than ever, self-employed people need support from government and better access to finance. In Chapter Six, we make six original policy recommendations that aim to improve access to finance, ensure more effective governmental support in the short term and build financial resilience in the long term. We are especially focused on those groups who consistently struggled during the pandemic, including self-employed people from low income households as well as those aged 45 and over the long-term self-employed.

Rewarding flexible saving

Recommendation one: Introduce auto-enrolment for the self-employed for savings for both predictable (retirement) and unpredictable (financial hardship) events. The overall contribution rate should be lower than for employees, starting at 1% of qualifying earnings before rising to 4% after four years. The self-employed should pay annually through their tax return, or quarterly through Making Tax Digital. Above and beyond such contributions being tax-free, low-income self-employed should receive a top-up from the state for their contributions.

Low saving rates among the self-employed is a significant long-term challenge both for self-employed individuals and the state. To address this, the government should extend private pension auto-enrolment to the self-employed to drive up savings and emulate the policy's success among employees. There are ways to do this in the absence of an employer. Self-employed people could be required to choose a pension provider when filing their annual tax returns and have contributions added to their tax bill.

However, this extension of auto-enrolment should be better tailored to self-employed people. We propose three main alterations to the design of auto-enrolment to make it better suit self-employed people: a lower contribution rate; the ability to save half of these contributions into a more flexible savings vehicle; and the government matching the contributions of low-income self-employed people to boost savings.

First, the overall contribution rate should initially be lower than the minimum 8% specified for both employees and employers. Rather, the self-employed contribution rate should match the typical employee contribution rate. When taking into account tax relief, the average employee who is auto-enrolled pays in 4%.

To limit the immediate impact on self-employed people's finances, particularly given the current economic backdrop, this could be phased

in gradually. Contributions could start at 1%, with the rate increasing by one percentage point per year to eventually match the current average employee contribution rate.

Contributions should be calculated based on annual qualifying earnings – that is, trading profits between the minimum auto-enrolment trigger threshold for employees, which currently stands at £10,000, and the upper threshold of £50,270. These contributions could be calculated and made annually. However, with the roll-out of Making Tax Digital, the calculation period could in time be updated to quarterly intervals.

Second, self-employed people going on auto-enrolment should have the option to place up to half of their auto-enrolment contributions into an ISA instead. Self-employed people would have the choice on whether to save into an instant-access, restricted-access or investment ISA, or fully into their chosen pension provider. For example, if a self-employed person was auto-enrolled and had a total contribution rate of 4%, they could put 2% directly into their pension pot and 2% into an ISA.

Self-employed people would receive tax relief as normal on all their contributions as well as the tax wrapper benefits of an ISA, which would protect their savings pot from Income Tax on interest or dividends and Capital Gains Tax.

This alteration to the design of auto-enrolment is intended to make the scheme more akin to a 'sidecar model' whereby an instant-access savings account is tied to a pension pot, with surplus savings going into a pension pot. While this proposal does not work in entirely the same way – contributions to the savings account and pension pot are made in parallel, rather than pension contributions starting after a surplus is achieved in the savings account – it aims to achieve the same goal of giving self-employed people the flexibility to build up a 'rainy day fund' to address their short- and long-term financial needs.

Third, a targeted approach to help financially vulnerable self-employed people is savings top-ups, where contributions are matched by government.

Based on similar programmes that the government operates to facilitate saving among low-income households, including Help to Buy and Help to Save, a matching rate of 25% could be an eventual goal.

Annual tax returns could be used to determine eligibility, with self-employed people whose income falls above the minimum auto-enrolment threshold of £10,000, but under a higher threshold that reflects a low level of income, receiving savings top-ups on their auto-enrolment contributions until their income went back above this income threshold. Alternatively, eligibility could be triggered by UC status. Though less precise, receipt of UC could act as a simple administrative flag for savings top-ups on auto-enrolment contributions.

There are several ways the Treasury could limit the costs of this policy if this was necessary. One is through the definition of 'low-income' self-employed people it sets, which will dictate the number of people who are eligible for savings top ups on their auto-enrolment contributions. It could specify a cap on the cumulative total each self-employed person could receive in savings top-ups. Alternatively, savings top-ups could be time-limited, for example only applying for two years.

The way these auto-enrolment contributions interact with UC should also be considered. Currently, employees claiming UC can deduct 100% of their pension contributions, with benefits calculated on the resulting net income figure. Self-employed claimants can also deduct pension contributions in this way, but do not see any benefit if the pension contributions reduce their income below the MIF. This acts as an obvious disincentive for low-income self-employed people to save for the long term.

Top-ups to UC should be made where a self-employed person's auto-enrolment contributions take them below the MIF threshold. In a similar vein, if interest payments on business loans take someone below the MIF, this should be accounted for in UC calculations, as described later in this chapter.

The goal of these measures is to ensure that, while the MIF is kept in place to reflect its role in disincentivising fraud, it does not unduly punish self-employed people who are saving for their future.

Strengthening the safety net

Recommendation two: Introduce 'Business Crisis Loans' (BCLs) for self-employed people eligible for UC who experience a week or more of illness, late business payments, or an urgent one-off expense. Claimants would pay the loan back over time, with generous repayment terms including interest-free repayments for the first six months.

The Bounce Back Loan Scheme (BBLS) was, in part, designed to provide financial support to businesses who were losing revenue and seeing their cashflow disrupted as a result of the pandemic. Lenders taking part in the scheme could provide a six-year loan from £2,000 up to 25% of a business' turnover up to a maximum of £50,000. The loan also provided a government-backed guarantee for the lender against the outstanding balance (both capital and interest).

Although the BBLS was wound up after March 2021, government could consider introducing an adapted version of Bounce Back Loans specifically for self-employed people who are eligible for Universal Credit. These 'Business Crisis Loans' (BCLs) would be more limited in scope than both the Bounce Back Loans that preceded them and the Start-Up Loans (SULs) that provide low interest loans to new businesses and self-employed people.

The reasons for restricting BCLs to self-employed people who are eligible for UC is twofold. First, UC acts as a useful administrative flag: it already has caps on income and savings, so this would ensure that BCLs are going to self-employed people on low income who lack savings to cover unexpected expenses. Second, cross-referencing for UC eligibility has a role to play in preventing fraud. One of the main criticisms of the BBLS was that it did not do enough to prevent fraudulent claims, so it is important that any form of successor scheme has mechanisms in place to minimise it.

BCLs would apply where there is an unexpected and unforeseeable disruption to a self-employed person's business. There would be three

main circumstances where a self-employed individual could claim a BCL. As with the BBLS, the government would underwrite these loans to reduce risk to lenders.

First, a period of sickness lasting at least one full working week. In this case, the BCL would operate as a form of sick pay for self-employed people. The amount would be capped at the equivalent amount for Statutory Sick Pay for employees, which is £99.35 per week up to a maximum of 28 weeks. As with SSP, evidence of sickness would need to be provided in the form of a written note from a GP, nurse, occupational therapist, pharmacist or physiotherapist. Unlike SSP, the claimant would be able to request less than the default SSP amount if they wanted to.

Second, late business payments. Other organisations such as IPSE have already called for more action on late payments, for example through increasing the power of the Small Business Commissioner to issue fines and 'name and shame' late payers. In the long term, these are practical and necessary steps to addressing late payment issues for self-employed people.

A more immediate intervention to help low-income self-employed people is to use BCLs to help cover the financial impact of late payments in the interim. Self-employed people would be able to claim this class of BCLs upon presenting evidence of outstanding payment (past a threshold, for example 20 or more business days late) for an invoice.

Admittedly, this will not solve the issue of late business payments. Rather, it aims to address acute financial vulnerability among low-income self-employed people in the interim: improving the culture of business payments is likely to take years, whereas low income self-employed people need money quickly. The fact that it is targeted at a specific group of people, and clients may not know that the self-employed person is eligible for UC, means that the risk of the policy incentivising late payments is unlikely to be substantial.

Third, an unexpected and significant one-off business expense – for example, the breakdown of a van that is vital to continue trading. Here

the self-employed person would have to demonstrate that this expense was important to the functioning of their business and a genuinely one-off event.

Claimants would, over time, have to pay the BCL back. The specific repayment terms should be subject to review, but government could allow repayments to be interest-free for a certain period, for example the first six months after claiming, after which interest would accrue on the loan.

To disincentivise non-payment and fraud, there should be a maximum repayment period after which HMRC would be entitled to take the outstanding repayment directly from tax returns, although this should be a last resort after consultations between the claimant, loan provider and, where relevant, a Work Coach to try and establish a repayment plan. This maximum repayment period should be generous. But there should be a clear principle that after a certain period of time the money claimed for the BCL will be recouped.

Ultimately, BCLs are a way of extending microfinance to low-income self-employed people who need it to sustain their business and avoid a deterioration in their financial situation.

Besides the obvious benefit to the individuals receiving them, BCLs could help to improve a self-employed person's credit rating. Admittedly, firms tend to be wary of novel products, so it is not clear that BCLs would have a substantial impact on creditworthiness. Nonetheless, they may help to some extent, and over the long term the policy could help to expand and deepen private and third sector provision of microfinance for low-income self-employed people.

Ultimately, if government wanted to go further, it could even raise National Insurance Contributions on self-employed people in order to fund Statutory Sick Pay for this group and bring the benefits of self-employed people into line with those of employees. But, in the absence of widespread political support among the self-employed for higher taxes as illustrated in Chapter Four earlier, a limited programme of BCLs would be less costly to the Treasury and avoid the need to raise

taxes on self-employed people, while still addressing one of the major gaps in support for self-employed people.

Recommendation three: Financial incentives from central government for LEPs to set up local community peer-to-peer finance networks for the self-employed.

Bright Blue has previously recommended that central government funding for Local Enterprise Partnerships (LEPs) should, in part, be contingent on them developing advice networks for self-employed individuals and business owners and demonstrating that these advice networks will benefit low-income self-employed people.

To go further, the Government could extend this proposal to include financial bonuses to LEPs who set up local, community-based, peer-to-peer finance networks for the self-employed. These kinds of networks exist in Europe, particularly the Netherlands, in the form of 'bread funds' ('*broodfonds*' in Dutch).

Typically, these funds are small-scale and focused on providing a form of sickness insurance to self-employed individuals who would not normally be able to access sick pay. The goal of bread funds is to provide a form of personal insurance, rather than to secure better business lending terms for self-employed people, as other schemes such as Mutual Guarantee Societies aim to do.

LEPs, with their convening role for local businesses and traders together with their local knowledge, would be well-placed to advise on and oversee the creation of 'bread funds' in the UK. In particular, they would be a good way of scaling up bread funds in the UK and increasing take-up among the self-employed.

Should LEPs demonstrate that they have successfully facilitated bread funds in their local area, and that this has helped self-employed people on low incomes or from other marginalised groups, a small amount of additional funding could be awarded to them. In part, this would help the LEP to provide administrative and practical support to bread funds in a similar manner that *De BroodfondsMakers* provide in

the Netherlands.

Taken together with our previous recommendation from an earlier report, this would mean that LEPs face a financial 'stick' in the form of conditional funding to set up general business advice networks for self-employed people, as well as a financial 'carrot' to facilitate the creation of bread funds for self-employed people.

Widening financial choice

Recommendation four: Create a fund to provide £10,000 of starting capital for self-employed mutual guarantee societies. This fund would be open for a five year trial period and limited to 100 successful applicants only.

Our fieldwork showed that a significant minority of self-employed people, particularly those from Black and mixed ethnic backgrounds, wanted personal financial support – such as loans from family and/or friends – but could not access them during the pandemic. Self-employed people clearly need a formalised security net beyond family and friends.

The government should encourage the establishment of mutual insurance schemes, or 'mutual guarantee societies ('MGSs'), that cater for self-employed people. This is where groups of small businesses support each other to access low-interest loans from banks by using their cash assets as collateral to guarantee each other's loans. Such a service is already successfully offered by a number of cooperatives across Europe.

In contrast to bread funds, MGSs are larger in scale. Their aims are also different; MGSs aim to secure more favourable business loan conditions for small businesses, rather than to provide insurance for individuals.

The Government should create a fund for small businesses and sole traders, explicitly including self-employed people as well as SMEs, to access £10,000 of starting capital to set up a mutual insurance scheme.

To strengthen confidence in MGSs, the scheme could be delivered by

established Community Development Financial Institutions (CDFIs). CDFIs are social enterprises that specialise in microfinance provision for financially vulnerable groups. They have existed in the UK since 1973 and are already regulated.

In order to assess the effectiveness of this scheme, a trial could be delivered using the FCA's regulatory sandbox. The regulatory sandbox gives firms access to regulatory expertise and a set of tools to test different approaches. Using the sandbox for MGSs would allow participating institutions to find workable parameters for MGSs in terms of minimum or maximum member numbers, or entry requirements for joining the MGS such as length of trading history and average profits.

This fund would be open for a five year trial period and limited to 100 successful applicants only. This would minimise the cost to the Treasury to £1 million and allow the government to evaluate the success of the MGS trial.

Should the evidence prove it is useful and that take-up is likely to increase, the scheme should be rolled out for further applicants after the five year trial period and a regulatory framework for MGSs (distinct from that for insurers) should be established, drawing upon the best approaches found in the regulatory sandbox.

Recommendation five: The Government should allow self-employed people on low incomes to pause repayments on their Start Up Loans (SULs) for up to six months across the lifetime of the loan. It should also regularly review the effectiveness of the SUL scheme for self-employed people in low income households and provide extra mentoring and advice services for applicants. Finally, SULs should not count towards the surplus earnings rule for self-employed people on UC.

'Microfinance,' which is the provision of small amounts of credit (in the UK, typically £500 to £25,000) to low-income and marginalised groups who would otherwise struggle to access traditional forms

of finance, is one promising model to extend financial provision to financially vulnerable groups of the self-employed.

Admittedly, there are existing schemes to help newly self-employed people access microfinance. One of the main forms of this is Start Up Loans, which are offered by the Start Up Loans Company, a subsidiary of the British Business Bank.

Evaluation of the SUL scheme suggests that, so far, it has been effective. Overall, the programme has demonstrated value for money, with every £1 invested in the scheme estimated to deliver between £3 and £5.7 back to the economy. Further analysis found that the value for money of the programme is higher once the pre-programme income of the beneficiary is taken into account, suggesting the programme plays a role in supporting disadvantaged and low-income individuals.

There is also evidence that the scheme has made self-employment a viable option among individuals for whom it would not have been without SUL support. Notably, out of 104 unemployed individuals in the 2016 SUL cohort sample, the majority (58) moved into self-employment. And of those who moved into self-employment after accessing SUL support, around half said that they would not now be in self-employment in the absence of the loans.

Admittedly, there have been recent expansions of the SUL programme. At the 2021 Spending Review, the Government committed to funding for 33,000 additional SULs over the following three years, maintaining an increased rate of expansion that had been set at the 2020 Spending Review.

But while data on the SUL programme in aggregate is promising, more could be done to tailor the SUL programme, and improve its outcomes, for self-employed people on low incomes specifically.

First, to further take-up of SULs among low-income self-employed people, the government could offer more generous repayment terms on SULs for self-employed people on low incomes.

At present, SULs have a repayment term of one to five years. The Government should explore making repayment terms more generous

for low-income self-employed people by giving them the option to pause repayments for up to six months in total across the lifetime of the loan.

A similar provision is available for Bounce Back Loans, where people have the option to delay repayments for six months from the first repayment.

Second, there is scope to collect more detailed data on outcomes for self-employed people on low income. The final evaluation report of the SUL programme was in 2019, though the Start Up Loans Company regularly reports on the amount, demographic and regional breakdowns of its loans. Going forward, the SUL programme could be required to regularly monitor and report longitudinal data on outcomes for self-employed people on low incomes.

Third, while the overall effectiveness of the SUL programme is well-evidenced, the final evaluation report noted that a substantial proportion of individuals involved with the programme reported that they had not been offered mentoring support. This reflects some regional variation in delivery. Furthermore, some of those that required additional external finance after the Start Up Loan did not seek it. This may well be limiting the potential growth of some businesses that use the Start-Up programme and reflects the need to improve the availability of 'aftercare' advice for users of the programme.

The Government should review the effectiveness of mentoring support, including how well it reaches newly self-employed people and self-employed people on low incomes, and assess how it can better expand access to mentoring. In particular, the Government should work with key stakeholders that have access to the newly self-employed to design and enable greater mentoring support.

Finally, another way of tailoring SULs to self-employed people on low income is thinking about the interaction between government-backed loans and UC. During the pandemic, many self-employed people claiming SEISS were, as a result, subjected to the UC surplus earnings rule. The surplus earnings rule means that if a self-employed person's earnings exceeds the point at which a UC award drops to zero by more

than £2,500, the excess amount is carried forward into later assessment periods. Due to the lumpy nature of SEISS grants, which each covered three months, claimants often found their earnings significantly exceeding the threshold for UC surplus earnings purely as a result of the policy design of the SEISS, meaning that many who received an SEISS grant then received no UC award the next month.

In the future, to avoid broader self-employed support schemes interfering with self-employed UC claims, the Government should make provisions for certain forms of income from support measures to be exempted from calculations of the surplus earnings floor. Specifically, this should include SULs. The key idea is to ensure that the surplus earnings rule is focused precisely on business earnings. Indeed, the point of the policy is to reduce UC for people who do not need it after a highly successful business month. It is not to penalise self-employed people for investing in their businesses.

Recommendation six: A government-backed 'finance portal' for self-employed people, to summarise financial health and increase awareness of different options for financial support.

A substantial proportion of self-employed people in our fieldwork who wanted, but could not access, financial support cited not being aware of support available as the reason. Clearly, there is more that can be done to increase awareness of different financial products among self-employed people.

Alongside our earlier recommendations around auto-enrolment and loans, government should develop a central online hub where self-employed people can review their financial pots. The idea is similar to that of a 'pensions dashboard' – which shows a user their pension information securely in one place – but with some extensions. First, self-employed people would be able to see the status of their assets – in particular, their auto-enrolled pension, as well as its linked ISA or savings account and their liabilities; their outstanding balance for products such as Start-Up Loans and BCLs.

Second, there is a range of private financial provision which already exists that could be further leveraged by promoting awareness among self-employed people. Besides providing a basic financial overview, the finance portal could also signpost self-employed people to support providers such as their Local Enterprise Partnership as well as commercial financial options, in particular invoice factoring and invoice discounting.

Indeed, a centralised finance portal would not only benefit self-employed people. While certain features of it, such as signposting for LEPs or information on options such as invoice financing, would need to be tailored to self-employed people specifically, an approach like this would be beneficial for workers in general. Extending the approach to all workers would also strengthen the rationale for government to develop a centralised finance portal service.

Conclusion

As a consequence of COVID-19 and the ongoing pressures self-employed people are facing, the rise in self-employment that the UK has experienced since the turn of the century is now in jeopardy. To better help self-employed people through future national and individual crises, new and ambitious public policies are urgently needed in line with five key principles.

First, ensuring that self-employed people are better rewarded and incentivised for saving. This will, over time, build up the financial resilience of self-employed people and their ability to weather future crises. But it is important that self-employed people are able to save flexibly to meet immediate challenges as well as build up savings for retirement.

Second, widening financial choice. Self-employed people during COVID-19 were, to some extent, constrained by a lack of suitable products and a lack of awareness. Increasing access to financial products and strengthening awareness of different financial products should be a key objective for policy to help self-employed people in the future.

Third, strengthening the safety net. There is scope both to improve the design of UC and other elements of the welfare system for self-employed people and to encourage financial co-operation among self-employed people to ensure replacement income in times of illness or disruption.

Fourth, support should be targeted at the groups of self-employed people that need it most. In particular, lower income households should be a priority. But other groups, such as young people and ethnic minorities, relied relatively heavily on support during COVID-19, while others, such as older self-employed people, had more difficulty navigating the support system.

Finally, new support measures should be fiscally responsible considering the state of the public finances. This does not necessarily mean fiscal neutrality, but it does mean that new policies to support self-employed people should be low-cost and cost-effective.

Chapter 1: **Introduction**

There are currently over five million self-employed people in the UK.[1] Over the last 20 years, self-employment in the UK has grown considerably. The number of self-employed people has increased 36% since 2000 and self-employed people now represent 15.3% of the labour market compared to 12% in 2000.[2]

However, the impact of the COVID-19 pandemic has put a stop to this structural rise of self-employment. Between October-December 2019 and January-March 2022 there has been a 16% drop in the total number of self-employed people. Although it is not yet clear if this a temporary effect due to COVID-19 or an inflection point in overall self-employment trends, it is notable that while the number of employees has recovered and exceeded pre-pandemic levels, the number of people in self-employment is yet to recover more than two years after the pandemic first hit.[3]

This report makes an original contribution to public policy literature by focusing on the particularised challenges and experiences that self-employed people in low and middle income households faced over the course of the COVID-19 pandemic.

1. Office for National Statistics (ONS), "Coronavirus and self-employment in the UK" (2020).
2. Ibid.
3. ONS, "EMP14: Employees and self-employed by industry (May 2022)", https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/employmentandemployeetypes/datasets/employeesandselfemployedbyindustryemp14 (2022).

What is self-employment?

The main types of employment status in the UK are: worker; employee; self-employed/contractor; director; and office holder.[4] These statuses are associated with different rights, benefit entitlements and tax codes.

Employment law and tax law are distinct in the UK. Whereas the former determines an individual's rights and responsibilities at the workplace, the latter decides their tax liabilities. The legal position is not always clear; it is possible for HMRC to regard someone as self-employed in tax law even if they have a different status in employment law. Conversely, directors of limited companies often regard themselves as self-employed, even though HMRC guidance states that they should be treated as employees for tax purposes.

Indeed, some company owner-managers – that is, those running incorporated businesses – might understand themselves as self-employed on the basis that they are the sole owner-manager of their business. But these are distinct statuses. Whereas self-employed workers are individuals running a business on their own account, company owner-managers have set up an incorporated business which is a distinct legal entity. In other words, profits from the business legally belong to the company and not the individual. The tax positions for these arrangements are also distinct. Company owner-managers can, for example, receive income from their company in the form of dividends, as well as salary.

There are a range of different working patterns identified and recorded as self-employed by the Office for National Statistics (ONS). In 2020, of the types of self-employment, 'working for self' was most common at 68% of all those classified as self-employed, followed by 'running a business' (18.7%), 'sole director of own limited business' (14.3%), and then 'freelance', 'partner', 'sub-contractor', and 'agency' (at 12.3%, 10.6%, 10.2%, and 3.3% respectively).[5]

4. GOV.UK, "Employment status", https://www.gov.uk/employment-status (2021).
5. ONS, "Coronavirus and self-employment in the UK", https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/employmentandemployeetypes/articles/coronavirusandselfemploymentintheuk/2020-04-24#working-for-yourself-was-the-most-common-type-of-self-employment (2020).

Some people combine employment and self-employment, and as such are not wholly self-employed. Estimates from the Labour Force Survey in 2021 indicate that among those whose main job is as an employee, 1.4% have a secondary job in self-employment. Among those who are primarily self-employed, 2.3% have a secondary job as an employee.[6]

All this underlines the variety of working arrangements that people who understand themselves as self-employed may engage in. In other words, the self-employed are a very diverse group. For the purposes of this report, we deem the self-employed to be those who identify as primarily self-employed – those who earn all or most of their income from self-employment. We also exclude company owner-managers from this definition of self-employment.

Trends in self-employment

The increase in self-employment since 2000 has been driven entirely by solo self-employment – that is, self-employed people operating without employees.[7]

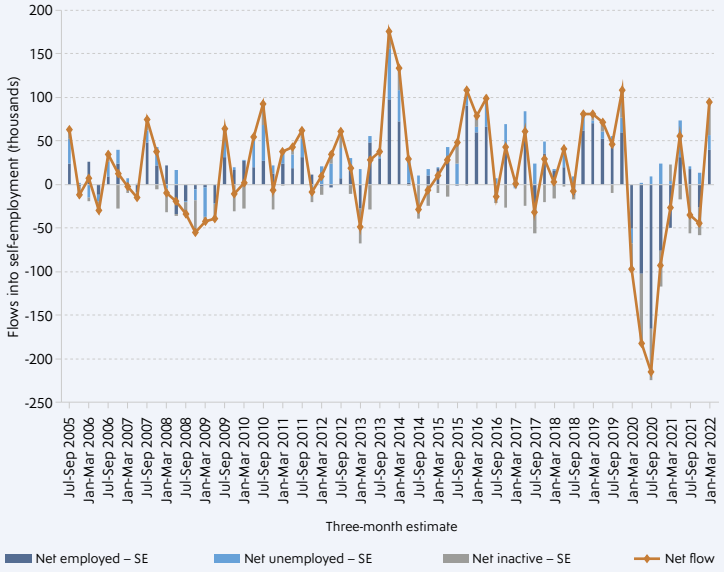
By international standards, the rise in self-employment in the UK over the past few decades before the pandemic has been extraordinary: whereas most OECD countries have seen relatively little change in the number of solo self-employed as a share of all workers, the UK has experienced one of the largest rises in solo self-employment, both in proportional and percentage point terms. Indeed, as of 2019, the UK had the second highest level of solo self-employment as a proportion of total employment, second only to Italy.[8]

While minor and temporary falls in levels of self-employment in the UK have occurred in the past few decades, there was a sharp and sustained fall in self-employment over the course of 2020. In late 2021, self-employment began to increase again, though the number of people

6. ONS, "Quarterly labour force survey, July – September, 2021", https://beta.ukdataservice.ac.uk/datacatalogue/series/series?id=2000026#!/faqs (2021).
7. Ibid.
8. Giulia Giupponi and Xiaowei Xu, "What does the rise of self-employment tell us about the UK labour market?", https://www.ifs.org.uk/publications/15182 (2020).

in self-employment has yet to recover its 2019 levels. This can be seen in Chart 1.1 below, which illustrates flows into and out of self-employment since 2005 broken down by type. Dark blue bars represent flows from employment to self-employment; light blue bars represent flows from unemployment to self-employment; and grey bars denote flows from economic inactivity to self-employment. The orange line shows the total of these component flows. In all cases, a positive value indicates an increase in self-employment, while a negative value indicates a decrease.

Chart 1.1. Quarterly flows into and out of self-employment, 2005 – 2022



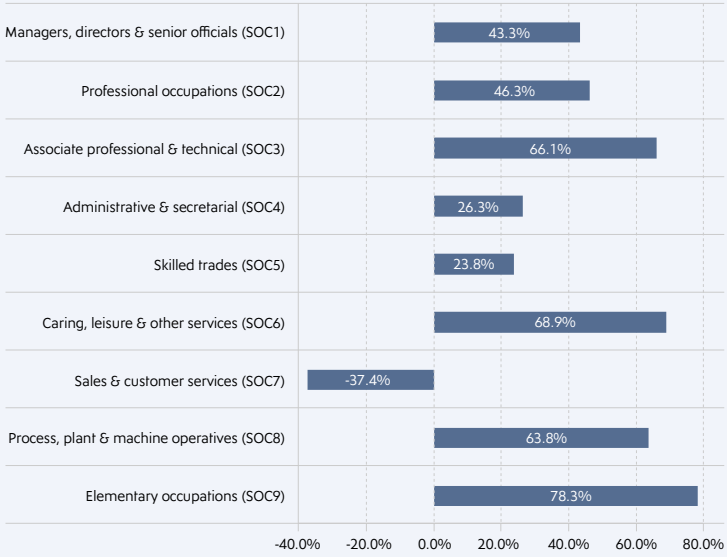
Source: ONS, "X02: Flows between economic status to March 2022" (2022).

The rise of self-employment since the start of the century has been broad-based across the income distribution, with the share of solo self-employment increasing by a similar amount in percentage point terms

across all income quintiles.[9]

Similarly, the rise of self-employment has not been confined to certain skill levels. Occupational skill levels are broken down by the ONS' 'Standard Occupational Classification' (SOC) system, which comprises nine levels from SOC1 (managers, directors and senior officials) to SOC9 (elementary occupations). Between 2001 and 2018, there was a broad-based rise in the number of self-employed people across virtually all occupations other than sales and customer services. This is detailed below in Chart 1.2.

Chart 1.2. Percentage growth in self-employment by Standard Occupational Classification, 2001-2018



Source: ONS, "EMP09: Employees and self-employed by occupation" (2018).

In large part, the rise of self-employment since the turn of this

9. Ibid.

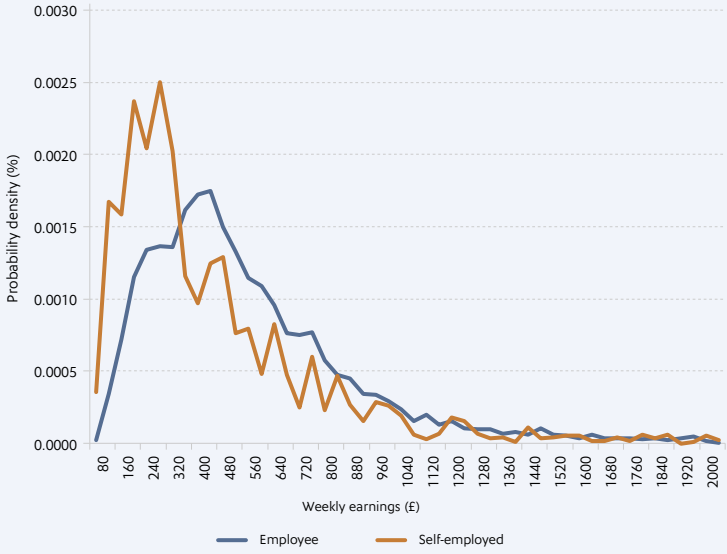
century has been a positive development. Most self-employed people attribute their move into self-employment to a choice taken out of personal preference.[10] Overall, a large majority (80%) of self-employed workers say they are happy being self-employed.[11] Previous Bright Blue research has also found that income has little effect on job satisfaction among the self-employed. Eighty percent of self-employed people in 'low-income households', defined for the purposes of that report as those having below 60% of median equivalised household income, report being satisfied with their job compared to 85% who were not in low-income households.[12]

The personal finances of the self-employed

However, the long-term, pre-pandemic rise of self-employment has brought with it challenges, especially around personal financial resilience. While there is a lack of recent data on self-employed incomes, previous surveys show clearly that median weekly earnings among the full-time self-employed are on average lower than for full-time employees, regardless of age group or educational attainment.[13] This is shown in Chart 1.3 below.

10. Conor D'Arcy and Laura Gardiner, "Just the job – or a working compromise? The changing nature of self-employment in the UK (2014).
11. ComRes, "IPSE – Survey of the self-employed", https://comresglobal.com/polls/ipse-survey-of-the-self-employed/ (2018).
12. David Kirkby, "Standing alone? Self-employment for those on low income", https://brightblue.org.uk/wp-content/uploads/2017/03/StandingAlone2.pdf (2017).
13. ONS, "Trends in self-employment in the UK", https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/employmentandemployeetypes/articles/trendsinselfemploymentintheuk/2018-02-07 (2018).

Chart 1.3. Distribution of full-time weekly earnings by employment status, financial year ending 2016[14]



Source: ONS, "Trends in self-employment in the UK" (2018).

The average earnings gap between the self-employed and employees has, if anything, worsened since the 2008 financial crisis. The IFS estimates that median earnings among the solo self-employed were 29% lower than that of employees in 2018-19, compared to 21% lower in 2002-03.[15]

That said, it is worth treating such data with caution. Income from self-employment is relatively hard to measure compared to income

14. 'Probability density' refers to the proportion of respondents at a given point along the income distribution. Since weekly earnings are a continuous variable, but the data is collected in bins of £40, each data point has a small value. However, the total probability is the area underneath each curve and not the sum of all the points.
15. Jonathan Cribb and Xiaowei Xu, "Moving into solo self-employment reduces income but improves well-being on average", https://ifs.org.uk/publications/14944 (2020).

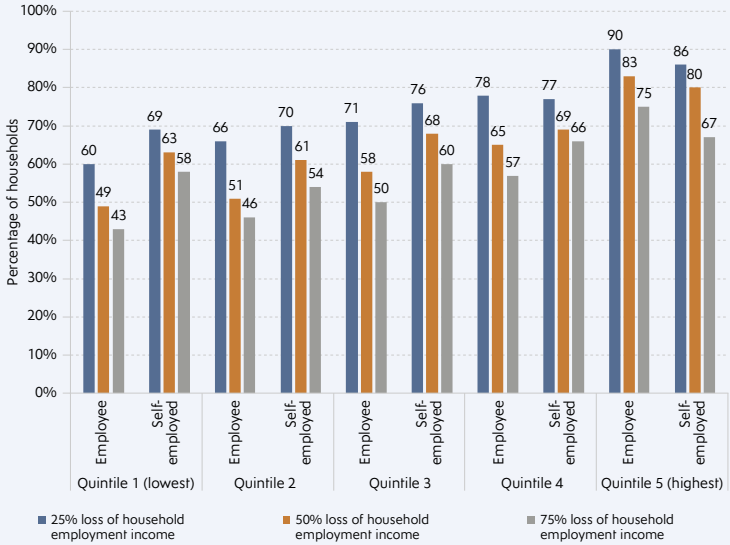
from standard employment. There are discrepancies between different datasets and there is some evidence that earnings from self-employment are often underreported.[16] Nevertheless, the overall picture is one of self-employed people earning less than their employed counterparts and the gap in average earnings widening over time.

Admittedly, there is evidence that, on average, self-employed people are more likely than their employed counterparts to have a savings buffer, though this has depleted for many self-employed people, as later sections of this chapter will illustrate. ONS figures from 2020 suggest that, on average, households with a self-employed head are marginally more likely to be able to cover a fall in income from work. Whereas 73% of households with an employee head could cover a three-month drop in employment income of 25% and 54% could cover a 75% drop, among self-employed headed households the respective figures are 76% and 61%.[17] In part, this is likely to reflect the nature of being self-employed. In order to deal with erratic incomes, self-employed people have an additional incentive to build a 'rainy day fund' relative to those in employment.

This better savings buffer is also manifest at the bottom of the income distribution. In the bottom income quintile, 69% of self-employed households had sufficient financial assets to deal with a three-month, 25% fall in their household employment income, compared with 60% of those with an employee as household head.[18] Among the bottom income quintile, the proportion of self-employed households (58%) that can cover a three-month, 75% drop in household employment income is notably higher than that for employee households (43%), as can be seen in Chart 1.4 below.

16. Ana Cinta Gonzalez Cabral and Gareth Myles, "Self-employment underreporting in Britain: who and how much?", https://tarc.exeter.ac.uk/media/universityofexeter/businessschool/documents/centres/tarc/publications/discussionpapers/Self-Employment_Underreporting_in_GB.pdf (2015).
17. ONS, "Financial resilience of households; the extent to which financial assets can cover an income shock", https://www.ons.gov.uk/peoplepopulationandcommunity/personalandhouseholdfinances/incomeandwealth/articles/financialresilienceofhouseholdstheextenttowhichfinancialassetscancoveranincomeshock/2020-04-02 (2020).
18. Ibid.

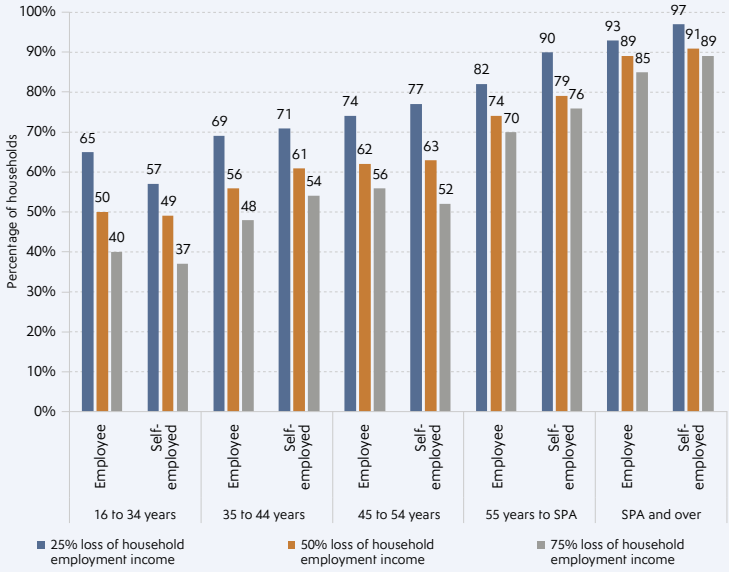
Chart 1.4. Percentage of households able to cover a three-month drop in household employment income, by employment status and income level



Source: ONS, "Financial resilience of households" (2020).

However, this picture of larger savings among the self-employed is not universal; young self-employed people – those in the 16-34 age group – not only show low levels of financial resilience on this measure, but are less likely than equivalent employee-headed households to be able to cover a drop in income. This is shown below in Chart 1.5.

Chart 1.5. Percentage of households able to cover a three-month drop in income, by employment status and age group



Source: ONS, "Financial resilience of households" (2020).

Later life savings are a considerable issue for the self-employed. The proportion of self-employed people saving into a private pension has been on a downward trajectory since the 1990s. In 1998, 48% of self-employed people contributed to a pension. But by 2018, just 16% of self-employed contributed to a pension.[19] Consequently, almost half of self-employed workers are concerned about pensions and later-life savings.[20]

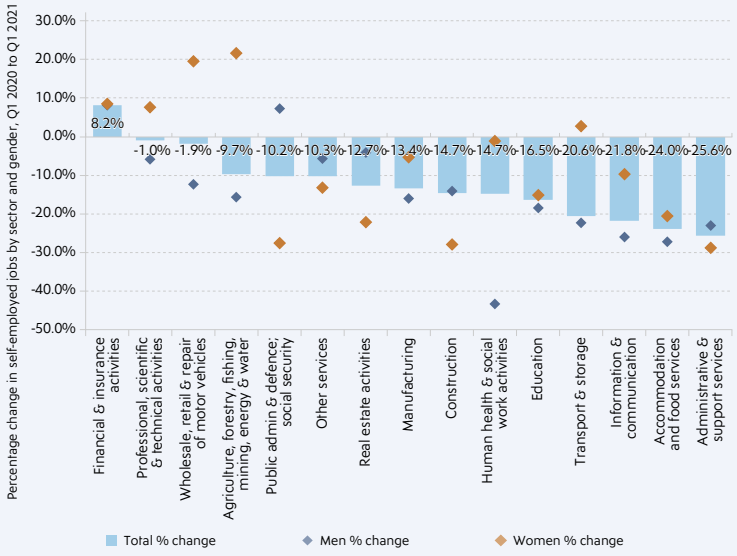
The impact of COVID-19

The pandemic not only contributed to a significant fall in self-

19. Rowena Crawford and Heidi Karjalainen, "Retirement saving of the self-employed", https://www.ifs.org.uk/publications/15103 (2020).
20. Demos, "New Demos polling finds self-employed workers seriously concerned over later-life savings, with pensions presenting their biggest challenge", https://demos.co.uk/press-release/new-demos-polling-finds-self-employed-workers-seriously-concerned-over-later-life-savings-with-pensions-presenting-their-biggest-challenge/ (2018).

employment, as Chart 1.1 earlier showed, but there was a highly sectoral impact of the pandemic on the self-employed, with 18% of those in sectors that were forced to shut down by the government, such as construction and retail, no longer working compared to 11% in all other sectors.[21] Self-employed men were slightly more likely to have stopped working during the pandemic than self-employed women.[22] An illustration of the sectoral and gender impact of COVID-19 on the self-employed can be seen below in Chart 1.6.

Chart 1.6. Impact on number of self-employed jobs by sector and gender, Q1 2020 to Q1 2021



Source: ONS, "EMP14: Employees and self-employed by industry" (2022).

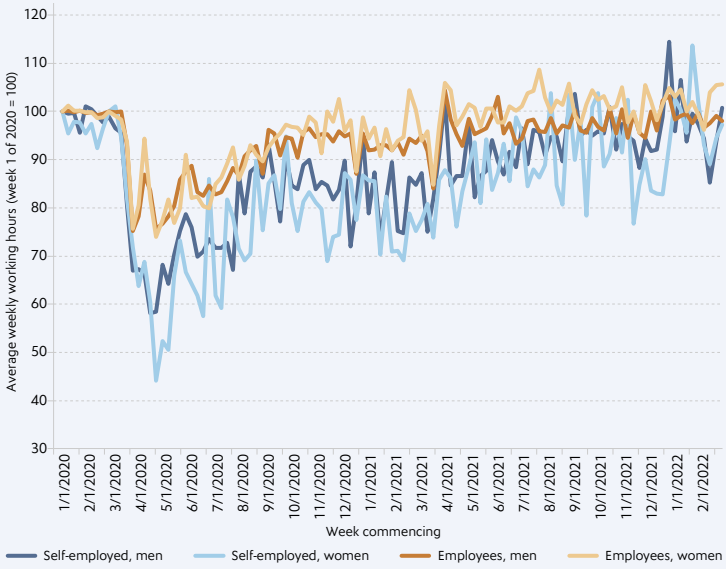
21. Ibid.
22. Ibid.

Besides contributing to a fall in self-employment, the pandemic also pushed many self-employed people into reduced hours.

Before the pandemic, average weekly hours worked was broadly similar across employees and self-employed workers. From March 2020, the start of the pandemic, the self-employed saw a considerably larger drop in average actual weekly hours worked than employees.[23] Whereas employees had mostly recovered their weekly hours by the end of 2020, as of March 2022, the self-employed only began to recover their pre-pandemic levels of average weekly hours from March 2021. This is shown below in Chart 1.7. Indeed, in December 2020, self-employed people were over five times more likely to report reduced hours than employees.[24]

23. ONS, "Understanding changes in self-employment in the UK: January 2019 to March 2022", https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/employmentandemployeetypes/articles/understandingchangesinselfemploymentintheuk/january2019tomarch2022#changes-in-hours-worked (2022).
24. ONS, "Personal and economic well-being in Great Britain: January 2021", https://www.ons.gov.uk/peoplepopulationandcommunity/wellbeing/bulletins/personalandeconomicwellbeingintheuk/january2021 (2021).

Chart 1.7. Average weekly hours by employment status and gender, indexed to week one of 2020



Source: ONS, "Understanding changes in self-employment in the UK: January 2019 to March 2022" (2022).

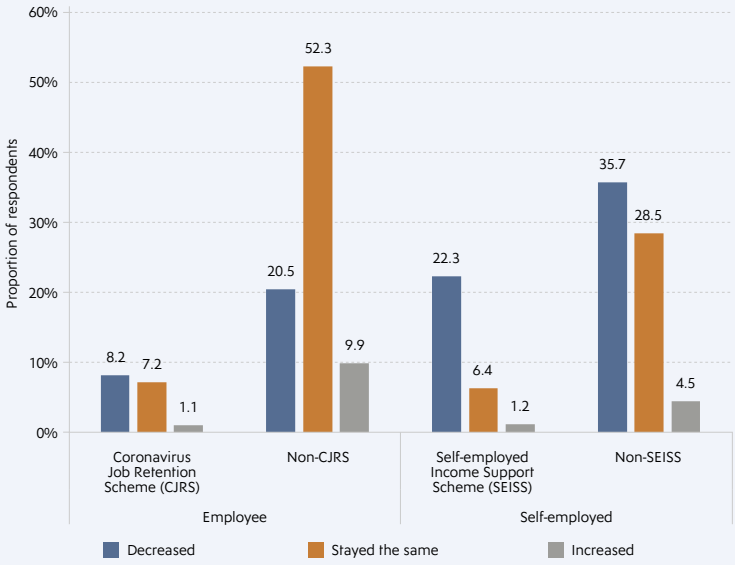
The impact of COVID-19 on the incomes of the self-employed has been stark. A survey from the LSE in September 2021 showed that 45% of self-employed people had monthly incomes of less than £1,000, with little change since January 2021. In September 2021, almost one in three (28%) of self-employed workers reported having financial difficulties dealing with basic expenses in the previous month.[25]

The impact compared to employees is stark. Chart 1.8, below, shows the impact of COVID-19 on incomes by employment status and governmental support scheme participation (details of governmental

25. Robert Blackburn and Maria Ventura, "Earning less than before COVID-19, the self-employed struggle to make ends meet", https://blogs.lse.ac.uk/businessreview/2021/11/24/earning-less-than-before-covid-19-the-self-employed-struggle-to-make-ends-meet/ (2021).

support schemes will be discussed later in this Chapter). Regardless of whether self-employed people received governmental financial support or not, a larger proportion compared to employees reported their income decreasing over the course of the pandemic.

Chart 1.8. Impact of COVID-19 on incomes by employment status and governmental support scheme participation



Source: ONS, "Personal and economic well-being in Great Britain: May 2021" (2021).

Indeed, financial hardship among the self-employed rose considerably over the course of the pandemic. A clear majority (61%) of self-employed individuals reported that their overall financial situation had worsened during the pandemic – the highest figure among all demographic groups polled by the Financial Conduct Authority in 2020, compared to even young people aged 18-24 (49%), renters (42%) and those on household incomes of less than £15,000 (43%). This compares to only

43% of employees.[26]

For many self-employed, their financial situation has deteriorated to a particularly worrying extent. Research by the LSE suggested that around a third of self-employed people had trouble covering basic expenses such as rent or utilities in April 2020.[27] Indeed, close to three in ten (28%) of self-employed people reported cutting back on essentials such as food, clothing or medical care between February and October 2020.[28] This compares to 19% of adults overall. Underlining all this, the number of self-employed people claiming Universal Credit shot up by 341%, from 46,800 to 206,200 in 2020.[29]

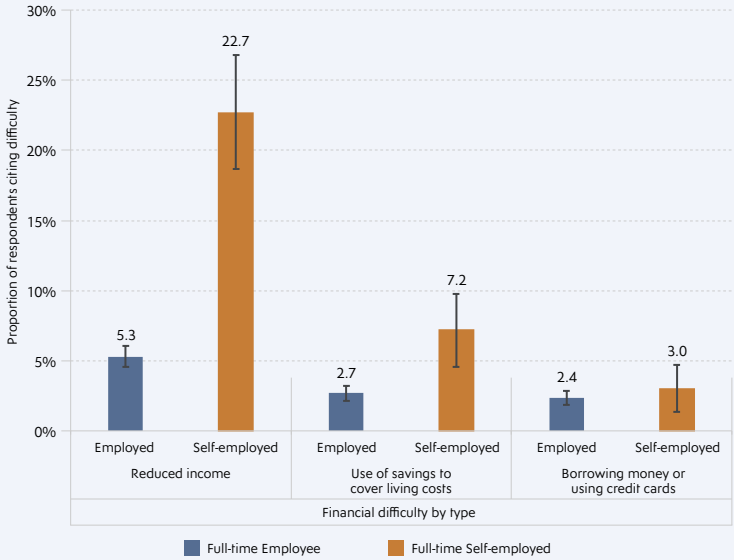
The financial difficulties facing the self-employed throughout the pandemic are reflected in personal borrowing rates. At the end of 2020, 17.4% of all UK adults reported having borrowed money, up from 10.8% in June 2020. Of those who borrowed, self-employed people were considerably more likely to have borrowed over £1,000 (60.9% vs 49.4% of all those who borrowed).[30]

Moreover, in October 2020, 47% of self-employed people reported using their savings to cover day-to-day expenses, make loan repayments, or cover their mortgage, compared to 36% of employees.[31]

Chart 1.9, below, shows the results of an ONS survey on the impact of COVID-19 on household finances, conducted between June and July 2021. Even accounting for statistical error (shown in the error bars), self-employed people were considerably more likely than employees to report that their household income was lower and that they were having to make use of personal savings to cover living expenses.

26. Financial Conduct Authority, "Financial lives 2020 survey", https://www.fca.org.uk/publication/research/financial-lives-survey-2020.pdf (2021).
27. Jack Blundell and Stephen Machin, "Self-employment in the Covid-19 crisis", https://cep.lse.ac.uk/pubs/download/cepcovid-19-003.pdf (2020).
28. FCA, "Financial lives".
29. IPSE, "The self-employed landscape", (2020); IPSE, "IPSE: warning as Universal Credit changes set to hit hundreds of thousands of self-employed from Sunday", https://www.ipse.co.uk/ipse-news/news-listing/ipse-universal-credit-changes-to-hit-self-employed.html (2021).
30. ONS, "Personal and economic well-being in Great Britain: January 2021" (2021).
31. FCA, "Financial lives".

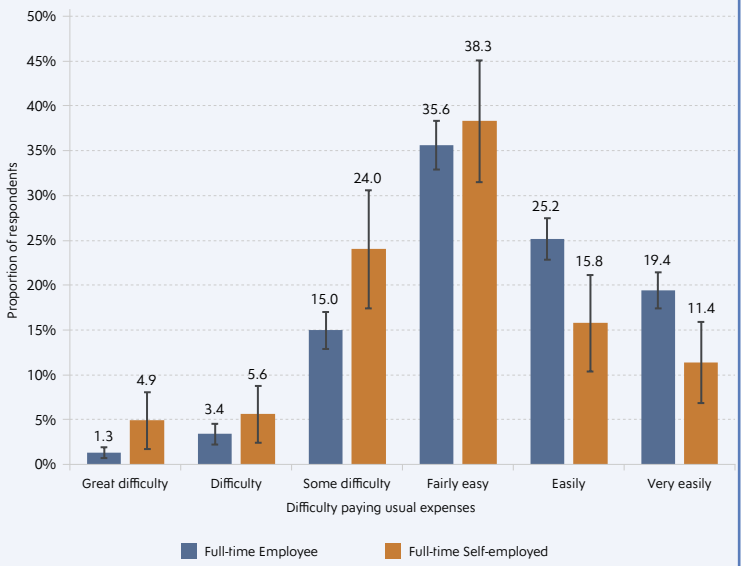
Chart 1.9. Employees and self-employed reporting financial difficulties by type, June-July 2021



Source: ONS, "Coronavirus and the impact on household finances and living standards: September 2021" (2021).

Chart 1.10 below shows the difficulty with which people from different employment statuses reported being able to pay usual expenses at the end of the financial year 2020-2021, after the first year of the pandemic.

Chart 1.10. Difficulty in paying usual expenses by employment status, financial year 2020-21



Source: ONS, "Survey on Living Standards, financial year 2020-21 and financial year 2019-20" (2021).

As Chart 1.10 illustrates, a substantially higher proportion (34.5%) full-time self-employed people reported some degree of difficulty in paying usual expenses, compared to 19.7% of full-time employees. Admittedly, there is some statistical uncertainty around these findings, as indicated by the error bars in the chart. But it is almost certain that the share of self-employed people who had 'great difficulty' in meeting usual expenses was higher than among employees, and the share who could easily or very easily meet these expenses was lower.

There is some qualitative research that indicates that the pandemic has brought unique and particular financial challenges for self-employed people. For many in self-employment, erratic income and living through financial difficulties are not new experiences. However, some self-

employed workers reported that in addition to the obvious economic challenges, the complete inability to plan ahead during restrictions was an added complication that made maintaining finances extremely challenging.[32]

The impact of COVID-19 on the personal finances of many self-employed workers was stark. However the pandemic also had a profound impact beyond money. In particular, there was a sharp deterioration in mental health: around one in four self-employed people reported having 'poor' or 'very poor' mental health since the beginning of the pandemic, representing a 300% rise on the previous year.[33] Women and young freelancers have been the most affected by this decline in mental health.

There is evidence that, relative to employees, the self-employed have been particularly hard hit in terms of mental health. A large survey prior to and after COVID-19 found that self-employed people suffered a worse, and statistically significant, deterioration in mental health compared to employed individuals.[34] This is consistent with research undertaken by Trinity Business School, which indicates that the impact on mental health of financial distress is more acute for self-employed workers than for employees.[35]

A 2020 report by the LSE found that 20% of workers were likely to leave self-employment following COVID-19, implying that their experiences had been negative. The likelihood of leaving was higher among less risk-averse workers, younger workers and those excluded from government support.[36]

32. Ibid.
33. IPSE, "One in four self-employed struggling with mental health because of covid turmoil", https://www.ipse.co.uk/ipse-news/news-listing/one-four-self-employed-mental-health-covid-turmoil.html (2020).
34. Eugenio Proto and Climent Quintana-Domeque, COVID-19 and Mental Health Deterioration among BAME Groups in the UK, *PLoS ONE* (2020).
35. Jenny Berrill, Damien Cassells, Martha O'Hagan-Luff, André van Stel, "The relationship between financial distress and well-being: Exploring the role of self-employment", *International Small Business Journal* (2021).
36. Blundell and Ventura, "COVID-19 and self-employment ten months into the crisis".

Public policy response to COVID-19

In this report, we focus on the three main dforms of financial support available from government to self-employed people during the pandemic: the Self-Employed Income Support Scheme (SEISS), Universal Credit (UC) and the Bounce Back Loan Scheme. There were other forms of financial support available to self-employed people, such as local authority discretionary grant funds. However, the SEISS, UC and Bounce Back Loans were the most common forms of governmental financial support for self-employed people.

The Self-Employed Income Support Scheme (SEISS)

In response to the first lockdown caused by the COVID-19 outbreak, the Chancellor announced the creation of the Self-Employed Income Support Scheme (SEISS) in March 2020.[37]

The SEISS consisted of five taxable government grants to self-employed individuals. Grants were calculated using average trading profits over three tax years, with each grant awarding a proportion of average monthly trading profits paid out in an instalment covering three months.

The generosity and eligibility criteria of SEISS grants has varied over the course of the pandemic. In broad terms, as the SEISS evolved eligibility criteria were reformed to, first, ensure the scheme was better targeted at those who had genuinely lost business as a result of COVID-19, and, second, to ensure those who had recently started trading and therefore missed out on the first grants were able to access later grants. The details of each grant are shown below in Table 1.1.

37. GOVUK, "Chancellor gives support to millions of self-employed individuals", https://www.gov.uk/government/news/chancellor-gives-support-to-millions-of-self-employed-individuals (2020).

Table 1.1. SEISS grants

Grant	Generosity	Eligibility criteria
First grant (March – May 2020)	80% of profits, capped at £7,500	To be eligible for the first and second grants, a claimant had to have: • Submitted a 2018/19 tax return by 23 April 2020; • Traded in the tax year 2019/20; • Intended to continue to trade in the tax year 2020/21; • Had trading profits of no more than £50,000, comprising over half of their total income; • Carried on a trade which had been adversely affected by coronavirus (however, there was no link between the amount of the grant and the extent of financial loss).
Second grant (June – August 2020)	70% of profits, capped at £6,570	
Third grant (November 2020 – January 2021)	80% of profits, capped at £7,500	The third grant maintained the same eligibility criteria as above, with two additions. The claimant had to demonstrate that they: • Experienced reduced activity, capacity or demand or were temporarily unable to trade in the period from 1 November 2020 to 29 January 2021, compared with what could reasonably have been expected without the impact of COVID-19 on the business; • Reasonably believe that there would be continued significant reduction in their trading profits.
Fourth grant (February – April 2021)		The fourth grant maintained the same eligibility criteria as the third grant, but updated the scheme to account for a new tax year. As such, the substantive changes were that claimants needed to: • Have submitted a 2019-20 tax return by 2 March 2021; • Have traded in the 2019-20 and 2020-21 tax years.

Grant	Generosity	Eligibility criteria
Fifth grant (May – September 2021)	30% or more reduction in turnover: 80% of profits, capped at £7,500 Less than 30% reduction in turnover: 30% of profits, capped at £2,850	The fifth grant added a turnover test to the eligibility criteria of the fourth grant. This required claimants to provide two turnover figures to HMRC: • First, turnover for a 12-month period starting between 1 and 6 April 2020; • Second, turnover for a reference period, which in most cases was the 2019-20 tax year. However, those who only started trading in 2019-20 were not required to provide turnover figures.

While a generous and unprecedented support package, the SEISS has nevertheless been criticised for several reasons. Criticisms of the scheme fall into four broad categories: exclusion; discrimination; targeting; and inadequacy.

First, exclusion. A significant proportion of self-employed workers were not covered by the SEISS. In particular, the requirement to have been active in two previous tax years meant that people who became self-employed after April 2019 were excluded from the scheme. This was an especially prominent concern given the financial vulnerability of the newly self-employed: whereas 32% of the people who were ineligible for the SEISS reported having trouble covering basic expenses, this figure was 58% among the newly self-employed.[38]

In October 2020, IPSE estimated that a third of the self-employed were excluded from the first rounds of the SEISS.[39] In a similar vein, research conducted by the Resolution Foundation in January 2021 found that

38. Blundell and Ventura, "COVID-19 and self-employment ten months into the crisis".
39. IPSE, "IPSE: SEISS increase welcome, but "deep structural problems" remain", https://www.ipse.co.uk/ipse-news/news-listing/seiss-increase-deep-structural-problems-remain.html (2020).

almost three in ten self-employed workers reported that despite falling profits, they had not been able to receive a grant through the scheme.[40]

Further criticisms have been made of the 'cliff-edge' design of the SEISS. Someone earning 51% of their income from self-employment would have received full support; someone earning 49% would not have qualified for any. Indeed, over half of the 1.3 million self-employed people with less than 50% of their income coming from self-employment have total personal incomes of under £25,000 per annum.[41] The IFS have suggested that extending the SEISS to this group would have been relatively cheap compared with other government support schemes, coming in at between £500 million and £800 million per quarter.[42]

Similarly, two self-employed people could have had very similar incomes – for example, £49,990 and £50,010 per annum – but whereas the first person was entitled to the full amount of SEISS support available, the second was not entitled to any. A number of experts drew comparisons to the Coronavirus Job Retention Scheme set up for employees – which did not cut off support to those earning above £50,000 – arguing that the hard cut-offs in the SEISS were not only arbitrary but also unfair compared to the support that employees received.[43] The cost of extending a tapered form of the SEISS to those earning between £50,000 and £100,000, for example, would have cost around £350 million, according to the IFS.[44]

Second, discrimination. The campaign group Pregnant Then Screwed launched a legal challenge against the SEISS, on the basis that the scheme indirectly discriminated against self-employed mothers. Since payments were based on average trading profits between 2016 and

40. Nye Cominetti, Kathleen Henehan, Hannah Slaughter and Greg Thwaites, "Long Covid in the labour market" (2021).
41. Jonathan Cribb, Isaac Delestre and Paul Johnson, "Who is excluded from the government's Self Employment Income Support Scheme and what could the government do about it?", https://ifs.org.uk/publications/15276 (2021).
42. Ibid.
43. Mubin Haq, "How can it be right for the Government to harm your business, leave you in need – and not help you?", https://www.standardlifefoundation.org.uk/en/media-centre/media-centre-news-article/excluded-figs (2021).
44. Cribb, Delestre and Johnson, "Who is excluded?"

2019, women who took maternity leave during this period lost out on a proportion of the support money.[45] However, the legal challenge was unsuccessful.[46]

There has been a gender disparity in SEISS claims. HMRC statistics on the fifth and most recent SEISS grant show that women accounted for 27% of claims made, despite comprising 32% of the eligible population for the grant and 35% of the overall self-employed population. The average value women (£1,900) was also lower than for men, who claimed an average of £2,400.[47] Similar patterns were observed in the earlier SEISS grants.

Third, targeting. In August 2020, of those self-employed workers who claimed the SEISS, 17% were able to claim despite having suffered no loss of income throughout the crisis.[48] Conversely, two thirds of self-employed workers who did not claim the SEISS had experienced a loss of income.[49]

The SEISS was later updated to address this. The third grant introduced tighter assessment rules, which required self-employed people making a claim to declare reasonable belief that their work suffered reduced profits or suspended trade due to COVID-19.[50] Following these changes, latter iterations of the SEISS were better targeted. This is particularly the case with overgenerosity. In addition to strict eligibility criteria, early iterations of the SEISS had a problem with offering more generous support than needed to some self-employed workers. By January 2021, the generosity of the SEISS was more proportionate and less likely to be overgenerous. Only 3% oof the self-employed reported that their SEISS

45. Ellie Price, "Covid: Self-employed mothers 'deserve equal help'", *BBC News*, 19 January, 2021
46. BBC News, "Covid: Court rejects self-employed mothers' sexual discrimination case", *BBC News*, 17 February, 2021.
47. HMRC, "Self-Employment Income Support Scheme statistics: November 2021", https://www.gov.uk/government/statistics/self-employment-income-support-scheme-statistics-november-2021/self-employment-income-support-scheme-statistics-november-2021#main-findings (2021).
48. Resolution Foundation, "Self-Employment Support Scheme pays out over £1.3 billion to thriving businesses, but nothing to 500,000 left without work", https://www.resolutionfoundation.org/press-releases/self-employment-support-scheme-pays-out-over-1-3-billion-to-thriving-businesses-but-nothing-to-500000-left-without-work/ (2020).
49. Ibid.
50. GOV.UK, "Check if you can claim a grant through the Self-Employment Income Support Scheme" (2021)

support had paid out more than their COVID-related losses.[51]

In addition, the fifth grant introduced a turnover test and differentiated support between those who had suffered an acute impact to their work because of COVID-19, defined as a turnover reduction of 30% or more, and those who had suffered a moderate impact, defined as a turnover reduction of up to 30%.

Admittedly, the SEISS has been incredibly generous relative to pre-pandemic social security systems. The replacement rate – the proportion of a benefit unit's income before housing costs that is replaced by benefits after the earner loses work – for the pre-pandemic UK welfare system provided a median replacement rate of 50% for claimants overall. This compares to a notional replacement rate of 80% for the SEISS, which increases to around 90% when taking into account the operation of the tax and benefit system as well as income from partners.[52] Nevertheless, a sizeable proportion (18%) of self-employed said that though they had received SEISS, it did not cover their losses.[53]

When asked about their plans after the pandemic has passed, self-employed people who were ineligible for the SEISS were more likely to plan on leaving self-employment. Among those who received SEISS support, 8% reported intending to leave self-employment after the crisis, compared to 19% of those who were not eligible for support. Regression analysis conducted by the Resolution Foundation has found that this relationship holds even after controlling for age, sex, qualification level, earnings and sector.[54]

Upon introducing the SEISS, the then Chancellor hinted at increased National Insurance payments from the self-employed as the price of increased state support, saying: "I must be honest and point out that in devising this scheme [the SEISS]– in response to many calls for support – it is now much harder to justify the inconsistent contributions between

51. Cominetti, Henehan, Slaughter and Thwaites, "Long Covid in the labour market".
52. Mike Brewer, Karl Handscomb and Krishan Shah, "In need of support?", https://www.resolutionfoundation.org/app/uploads/2021/04/In-need-of-support.pdf (2021).
53. Ibid.
54. Cominetti, Henehan, Slaughter and Thwaites, "Long Covid in the labour market".

people of different employment statuses."[55] Yet, 88% of self-employed people believe that the level of pandemic support for the self-employed population was not a fair reflection of their tax contribution.[56]

Universal Credit (UC)

The Government took action at the start of the pandemic to make UC more generous for self-employed people. In particular, two policies stand out: the suspension of the 'Minimum Income Floor' (MIF) and the £20-a-week uplift to UC.

From April 2020, the Government suspended the MIF that applied to Universal Credit (UC) claims made by self-employed people.

The MIF calculates monthly benefit awards as if the self-employed person was earning the National Minimum Wage, rather than actual earnings. Put another way, the amount of UC a self-employed person receives in a month cannot be higher than that of an employee on the minimum wage, regardless of whether the self-employed person's earnings are in fact lower than that of the employee that month. Someone earning lower than the MIF can therefore have their benefit entitlements restricted; the IFS estimates that the MIF affects around 450,000 self-employed households, who lose on average £3,200 a year as a result of the policy.[57]

To allow time for businesses to develop, the MIF is applied to self-employed earnings after a 12-month grace period, known as the 'start-up period.' This means that someone who has recently started a business is awarded UC based on their actual earnings and not those based on the MIF for the first year of trading.

From the start of August 2021, the Government reintroduced the MIF, but kept the start-up period. In addition, the Government enabled work coaches to allow discretionary suspensions of the MIF for up to two

55. Rishi Sunak, *Statement on coronavirus*, 26 March 2020, https://www.gov.uk/government/speeches/chancellor-outlines-new-coronavirus-support-measures-for-the-self-employed.
56. Prospect, "Inquiry into the future of self-employment".
57. Pascale Bourquin and Tom Waters, "The temporary benefit increases beyond 2020–21", https://ifs.org.uk/uploads/CH8-IFS-Green-Budget-2020-Temporary-benefit-increases.pdf (2020).

months at a time, up to a limit of six months, in addition to the start-up period. A version of this policy, which proposed providing an additional 12 months of exemption from the Minimum Income Floor that can be claimed by a self-employed Universal Credit claimant at any point in their lifetime, was developed in a 2019 Bright Blue report.[58]

Admittedly, the MIF serves useful purposes. It mitigates against benefit fraud by providing a strong disincentive for people to under-report earnings from self-employment to receive a higher UC award. Additionally, it avoids situations where government is effectively subsidising a non-viable business.

However, the MIF as it is currently designed is a poor fit for self-employment. Since it is calculated on a monthly basis, rather than on a rolling average, it does not account for the volatility of self-employed earnings, meaning a self-employed person earning the same in year as an employee could actually get less support under UC. Moreover, the reintroduction of the MIF was not phased in; consequently, many self-employed people saw large reductions in their benefit entitlements as a result.

In addition to suspending the MIF, the Government also introduced an increase of the UC standard allowance and the Working Tax Credit basic element by £20 a week, widely referred to as the 'UC uplift' or the '£20 uplift.' This increase was withdrawn at the end of September 2021.

The uplift represented a substantial share of entitlements: on average, it accounted for 12% of total UC entitlements for all claimants.[59] Given the preponderance of low income among the self-employed population – self-employed workers account for over a quarter of those in the bottom 20% of the net earnings distribution, despite making up around one in seven of all workers[60] – the uplift was a significant pillar of support for self-employed workers during the pandemic.

58. Ryan Shorthouse, Sam Lampier and Anvar Sarygulov, "Helping hand? Improving Universal Credit", https://brightblue.org.uk/wp-content/uploads/2019/03/Helping-hand.pdf (2019).
59. Tom Waters and Thomas Wernham, "The expiry of the Universal Credit uplift: impacts and policy options", https://ifs.org.uk/publications/15528 (2021).
60. Ibid.

Bounce Back Loans

A third main pillar of governmental financial support for the self-employed during the pandemic were Bounce Back Loans. Introduced in April 2020, Bounce Back Loans offer businesses government-backed loans between £2,000 and £50,000, with no fees or interest for the first 12 months and a 2.5% interest rate thereafter.[61] In September 2020, the National Audit Office estimated that sole traders had received 18% of the total support from Bounce Back Loans by value.[62]

Given that Bounce Back Loans will not mature for six years, it is difficult to assess their effectiveness. However, the scheme was implemented quickly; after the Chancellor proposed the scheme on 21 April 2020, it was launched on 4 May 2020.[63] Moreover, looser eligibility criteria than alternative coronavirus business loan schemes just "meant" that the loan approval rate has been above 80%.[64]

Focus of this research

The pandemic has had a profound economic and social impact on self-employed workers. The available evidence suggests that, on average, the impact "at least financially" has been worse for the self-employed than for employees. The three main forms of government financial support for the self-employed during the pandemic – the SEISS, Universal Credit and Bounce Back Loans – were generous and unprecedented, but have been criticised for being unavailable and insufficient for many self-employed workers.

There is a growing evidence base on the impact of the pandemic on the average self-employed person. But there is less evidence focusing specifically on those on low to middle incomes. This project makes a unique contribution to public policy literature by focusing on the

61. GOV.UK, "Apply for a coronavirus Bounce Back Loan", https://www.gov.uk/guidance/apply-for-a-coronavirus-bounce-back-loan (2021).
62. NAO, "Investigation into the Bounce Back loan scheme", https://www.nao.org.uk/wp-content/uploads/2020/10/Investigation-into-the-Bounce-Back-Loan-Scheme.pdf (2020).
63. Ibid.
64. Ibid.

experiences of self-employed people during the pandemic from lower to middle household incomes.
The report addresses the following research questions:

1. How has COVID-19 impacted different types of self-employed people on low and middle incomes?
2. What did self-employed on low and middle incomes think of the Government's Self-Employed Income Support Scheme?
3. Which strategies, services, advice and products did the self-employed on low to middle incomes use during COVID-19?
4. What were the particularised experiences and challenges of self-employed people on low and middle incomes from different socio-demographic backgrounds and working in different sectors during the COVID-19 crisis?
5. How has COVID-19 altered the experiences of and policies for the self-employed on low and middle incomes in the long-term?
6. What are the policies and products the self-employed on low and middle incomes would like and need to strengthen their financial resilience?

The report is structured as follows:

- **Chapter Two** describes the methodologies employed, including a literature review, depth interviews and polling.
- **Chapter Three** describes the financial, occupational, psychological and social impacts of the pandemic on self-employed individuals from low and middle income households.
- **Chapter Four** assesses the policies put in place to support self-employed individuals from low and middle income households during the pandemic.
- **Chapter Five** develops original policies to better support self-employed individuals from low and middle income households in future crises.

Chapter Two: **Methodology**

The aim of this report is to identify the particularised challenges and experiences that self-employed individuals in low and middle income households faced during the COVID-19 pandemic, as well as how they adapted to these challenges through various forms of support. These findings will inform recommendations for improving the support from public policy in place for self-employed people.

This chapter begins by defining the self-employed individuals we are focused on, before outlining the key research methods employed during the project.

Who are the self-employed?

As outlined in the previous chapter, self-employment can be understood by people in a number of different ways.

For the purposes of our fieldwork, we included self-defined self-employed individuals. However, we excluded those whose main form of employment was not self-employment (to do this, we required that respondents derived more than half their income from self-employment), as well as company owner-managers and students. This definition is used both in the depth interviews and the polling of self-employed people.

Defining low and middle income

To identify the income groups of self-employed people we studied through our fieldwork, specifically low and middle income households,

we used annual equivalised household incomes, with weights set by Office for National Statistics data. Many self-employed people have irregular incomes that fluctuate throughout the year because of the seasonality of their sector. To address this, we asked self-employed respondents to report their approximate typical household income per year. We asked respondents in the fieldwork to report their annual income before tax year ending April 2020, so as to avoid capturing the distortive effects of COVID-19 on income.

Where it is possible to use, equivalised household income is a more accurate measure of an individual's financial situation, as it is better able to reflect the financial means of a given household than personal income. Indeed, by using individual income as the measure, we could be including self-employed individuals who have a low individual income but are supported financially by a partner who makes their financial circumstances relatively affluent. In addition, equivalisation accounts for household size, so those with more in their household require a higher income to be deemed as affluent than those with fewer household members. Due to methodological constraints, the fieldwork used gross rather than net equivalised household income.

For the first part of our fieldwork, our depth interviews, respondents were categorised into two groups. 'Low income' was defined as an equivalised gross household income of £35,000 or less, with £35,000 reflecting the gross median equivalised household income among self-employed people and 'middle income' as between £35,000 and £50,000 per annum.

We decided to include household middle income, as well as household low income, respondents in our depth interviews in order to capture a range of financial circumstances. The majority of respondents in the depth interviews were in a gross equivalised low income household, however a significant number reported being in a gross equivalised middle income household. This allowed us to see if there were any differences in experiences or attitudes between low and middle income households that could be further explored in the subsequent polling.

For the second part of our fieldwork, public polling, we split respondents into numerous gross equivalised household income bands. These included:

- Below £20,000
- £20,000 – £29,999
- £30,000 – £39,999
- £40,000 – £49,999

We then used 'below £35,000' and '£35,000 – £49,999' as summary variables for equivalised gross household low and middle income, to align with the measure used for the depth interviews.

A note of caution. As previous Bright Blue research has found, self-employed people often enjoy a higher standard of living than would be expected based on their reported income. For example, among households in the bottom income quintile, self-employed only households are more likely to be homeowners compared to employee-only households.[65] As described in Chapter One, it is worth acknowledging the accuracy of reported income by self-employed individuals will be lower than for employees.

Research techniques

We employed four main research techniques for this report.

- **Literature review.** An extensive literature review was undertaken to identify both pre-pandemic trends in self-employment and the financial and social impact of COVID-19 on self-employed people, as well as to assess the effectiveness of the Government's policy response to the pandemic. The evidence surveyed included:
  - Government research reports
  - Relevant academic work

65. Kirkby, "Standing alone?", 32.

  - Surveys and reports assessing the impact of COVID-19 on the self-employed
- **Consultation.** Bright Blue consulted with a number of academics, opinion formers, campaigners and researchers.
- **Depth interviews.** Forty-three semi-structured depth interviews were conducted with a broadly representative sample of individuals who identified as self-employed and were in low or middle-income households. Interviews were conducted by Survation.
- **Public polling.** A poll of 1,583 self-employed UK adults in equivalised gross low and middle income households was undertaken to build upon, and quantify, findings uncovered by the depth interviews and further explore the experiences and challenges faced by self-employed people during the pandemic. Polling was conducted by Survation. A full list of polling questions is included in the Annex.

Depth interviews

Forty-three semi-structured depth interviews of self-employed UK adults in equivalised gross low income and middle income households were conducted for this report by Survation. They were conducted in the middle of the COVID-19 pandemic, towards the end of the 2021 lockdown.

We sought to achieve a uniquely and broadly representative sample of such individuals by establishing a number of quotas in our sample, relating to three important elements:

- **Socio-demographic characteristics** including: age; gender; ethnicity; region; and disability status; 'low' (up to £35,000) or 'middle' (between £35,000 and £50,000) gross equivalised household income.
- **Experience of self-employment.** We primarily measured this element by length of time spent in self-employment. We categorised respondents who entered self-employment after March

2020 as 'recently' self-employed; those who entered before March 2020 but after March 2018 as 'mid-term' self-employed; and those who entered self-employment before March 2018 as 'long-term' self-employed.

- **Pandemic policy support.** Another quota we used was whether or not the respondent had used the Self-Employed Income Support Scheme (SEISS).

Though the depth interviews reveal common experiences, it is important to note that these should not be extrapolated as representative of all self-employed individuals in low and middle income households. This is for two reasons. First, the sample is far too small to make such a judgement. Second, the sample has been deliberately engineered to ensure a minimum number of respondents in certain demographic groups, to ensure a range of views and experiences in the sample.

Bright Blue and Survation jointly authored the interview guide. Interviewee recruitment was conducted using Survation's call centre with a screener questionnaire, with the quotas – which were jointly designed by Bright Blue and Survation – outlined in Table 2.1 below. The interviews were carried out between 10th May and 7th June 2021, in the middle of the COVID-19 pandemic.

Interviewees were asked questions relating to four broad issues. First, the impact of COVID-19 on their life. Respondents were asked to describe the main impact of the pandemic on their life, the overall effect it has had on their standard of living, as well as other positives or negatives that arose. This comprised financial, occupational, social and psychological impacts.

Second, the extent to which the pandemic has changed their work and the reasons for this.

Third, the amount and types of financial, practical and emotional support used during the pandemic.

Finally, interviewees were asked to assess the government's support system put in place for self-employed people during the pandemic, how

it could be improved and what policies they would like to see put in place for the future. Listening to self-employed individuals in this way, we believe, will enable us to devise considered and practical policies that will best support them in future individual or national crises.

Table 2.1. Quotas for our broadly representative sample of self-employed individuals in low and middle income households

Sampling criteria		Number of respondents (minimum target in brackets)
Gender	Male	27 (25)
	Female	16 (15)
Age	18-34	7 (5)
	35-54	12 (15)
	55+	24 (20)
Ethnicity	White	35 (natural fallout)
	Black	3 (3)
	Asian	5 (3)
Region	London & East of England	9 (10)
	Midlands	4 (5)
	South East/South West	16 (12)
	North East/North West/Yorkshire & Humber	11 (8)
	Wales/Scotland	3 (5)

Sampling criteria		Number of respondents (minimum target in brackets)
Sector	Agriculture And Fishing	1 (natural fallout)
	Banking, Finance And Insurance	1 (natural fallout)
	Construction	1 (natural fallout)
	Distribution, Hotels And Restaurants	2 (natural fallout)
	Manufacturing	2 (natural fallout)
	Other Services	29 (natural fallout)
	Public Admin Education And Health	6 (natural fallout)
	Transport And Communications	1 (natural fallout)
Gross household income	'Middle income' up to £50k	17 (12)
	'Low income' up to £35k	26 (28)
Changes to standard of living over the last year	'Flyers' – improved	10 (4)
	'Flatliners' – stayed the same	10 (4)
	'Fallers' – reduced	23 (4)
Used SEISS	Yes	15 (5)
	No	28 (5)
Length of time in self-employment	Recent (since March 2020)	5 (5)
	Mid term (before March 2020, after March 2018)	4 (5)
	Long term (before March 2018)	34 (5)

In Table 2.1 above, bracketed numbers indicate the minimum quote set for each demographic group. 'Natural fallout' means that there was no minimum quota set.

Polling

The polling was undertaken by Survation. It was conducted between the 8th and 22nd November 2021, towards the latter stages of the COVID-19 pandemic. The sample consisted of 1,583 adult self-employed respondents in low and middle income households residing in the UK. Admittedly, our sample was unweighted. This was because of the parameters we had set around household income and the exclusion of owner-managers.

The design of our polling questionnaire was informed by the findings from our literature review and the depth interviews, which had uncovered a number of common themes and key issues affecting self-employed people in low and middle income households over the course of the pandemic.

The cross-breaks we used to segment the sample of self-employed adults in low and middle income households in the polling are detailed in Box 2.1 below.

Box 2.1. Complete polling cross-breaks

- Gender
- Age
- Region
- Education
- Ethnicity
- Standard Industrial Classification (sector)
- Changes in standard of living within the past year
- Length of self-employment (soft quotas based on interviews)
- Used SEISS
- Disability
- Type of self-employment
- Working hours

The polling sample enabled us to achieve three key objectives. First, the polling allowed us to quantify the common experiences of the self-employed during the pandemic which were uncovered by the depth interviews. Through this, we were able to identify how widespread the challenges and opportunities that emerged in the depth interviews really were among self-employed people.

Second, the polling enabled meaningful comparisons between different segments of the self-employed according to characteristics such as age group, gender, income, region and sector among others. This allowed us to better understand the diversity of the self-employed and further improve our typology of self-employed experiences in the pandemic.

Third, polling also allowed us to further explore the views of the self-employed on public policy: after uncovering a number of policy suggestions in the depth interviews, we were then able to test the popularity of a range of different policy options among different groups of the self-employed.

Throughout this report, where we use and commentate on charts or tables, we show a selection of demographic groups in which there is only significant variation or an unexpected finding. This is primarily to visualise and communicate the data more effectively.

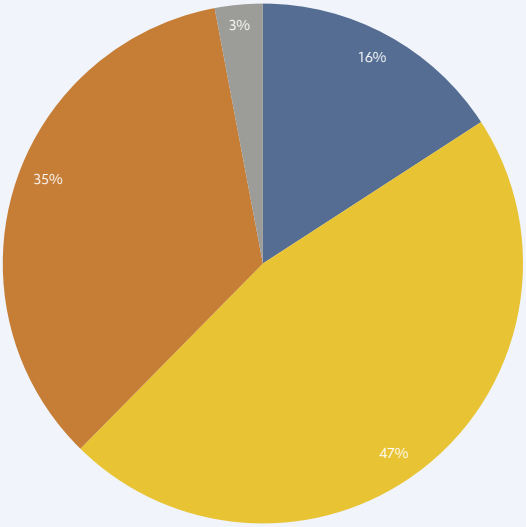
Chapter Three:
The experiences of self-employed people during the pandemic

Chapter One described the broad trends of self-employment before and during the pandemic. This chapter delves deeper into the overall impact of the pandemic on the financial, occupational, social and psychological experiences of the self-employed during the pandemic, unearthing variation across different social groups and sectors.

Financial experiences

Our polling finds that a plurality (47%) of self-employed people in low- and middle-income households saw no discernible change in their overall standard of living as a result of the pandemic. However, more than one in three (35%) of respondents we polled reported a decline in their standard of living, while only 16% reported an increase. This is illustrated in Chart 3.1 below.

Chart 3.1. Impact of the pandemic on overall living standards among self-employed individuals



Base: 1,583 respondents

In our depth interviews, some self-employed people in low and middle income households reported no change in their living standards. We deliberately set a minimum number of interviewees for these 'flatliners' so we could unearth their experiences. For a few respondents, this was simply because the pandemic did not directly affect their lifestyle, and so very little changed for them. But, in most cases, this was because, rather than nothing materially changing, these respondents experienced changes in their lifestyle that largely balanced each other out:

> "[We have] earned less and spent less … travel and eating out has been [expensive] … neither of which we have been doing"
>
> **Male, West Midlands, 35-44, middle income, long-term self-employed**

> “I have had to borrow to maintain the balance to compensate for the same standard of living”
>
> **Male, 45-54, South East, low income, long-term self-employed**

> “The disadvantages of lack of social contact have been balanced out to a degree … I haven't got to commute on a regular basis”
>
> **Male, 45-54, Wales, low income, long-term self-employed**

The factors behind falls in living standards – the ‘fallers’ we included in the sample – almost exclusively focused on loss of income and work.

> “Pre-COVID I was bringing 36-40k a year… after COVID I earned less than 10k … I am now living off my partner, he is paying for everything. I haven't bought clothes for a while; we would eat out regularly … haven't done that more than twice in last year. We would have supported smaller local businesses and we haven't gone so … huge knock-on effect.”
>
> **Female, 55-64, South East, middle income, long-term self-employed**

> “I'm not earning money. It has meant my income and standard of living has reduced – I have no money to buy anything apart from necessities.”
>
> **Female, 55-64, North West, low income, long-term self-employed**

Among the minority that reported higher living standards as a result of the pandemic – the ‘flyers’ we included in the sample – the reasons behind this were varied. Financial benefits flowing from the pandemic were frequently cited, either as a result of lower outgoings or, for some, increased demand for their work.

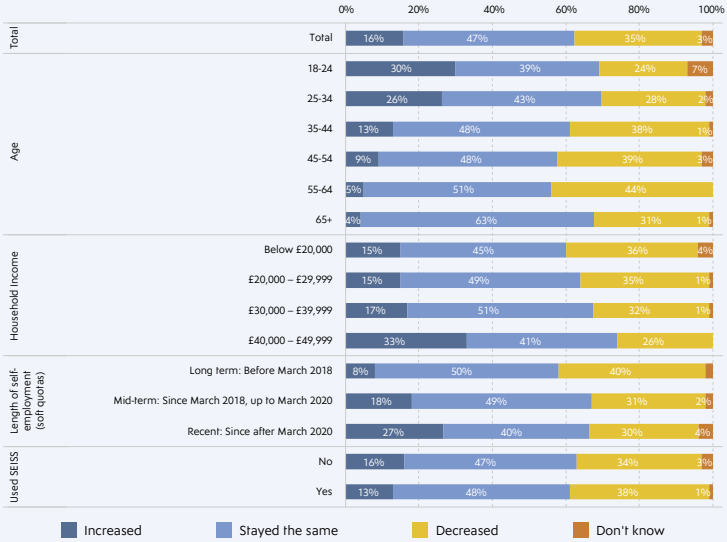
> "Mostly we have cut down the need for travel due to the pandemic. Also not eating out and making plans to go out for entertainment... [we have] adapted to domestic entertainment such as watching sport and Netflix."
>
> **Male, 55-64, Yorkshire and the Humber, middle income, long-term self-employed**

> "Not commuting has meant not spending so much money on travel and time not travelling. Better work-life balance. Extra time to spend with my family – watch more films together and sat down and ate together as a family and played games and spoke more and better sense of family unity. [I] caught up on reading which makes me feel better i.e., hobbies that I never had the time for ... saving money as we don't know what things will be like afterwards."
>
> **Female, 45-54, London, middle income, mid-term self-employed**

> "My earnings have almost doubled... [it] has improved my standard of living. Been able to pay off debt ... makes me feel more relieved mental health wise."
>
> **Male, 45-54, London, middle income, long-term self-employed**

Interestingly, unlike all other age groups, young people aged 18-24 who are self-employed and live in a low or middle income household were more likely to have seen their living standards increase (30%) than decrease (24%) during the pandemic. The proportion of self-employed individuals in low and middle income households who reported an increase in their standard of living steadily decreased among older age groups, with only around one in twenty of those aged 55 and up reporting increased standards of living. This is shown in Chart 3.2 below.

Chart 3.2. Impact of pandemic on overall living standards among self-employed individuals in low- and middle-income households by age, household income, use of SEISS and length in self-employment



Base: 1,583 respondents

Though perhaps not surprising, self-employed individuals in the highest-income households in our sample, with income of £40,000-£49,999 overall, were also about twice as likely as lower-income households and the overall average to report an increase to their standard of living. Indeed, among the highest-income households in our sample, more self-employed said they had seen an improvement to their standard of living than the opposite.

Interestingly, there was some difference in terms of changes to living standards between those who used the SEISS and those who did not, as Chart 3.2 above shows. Thirty-eight percent of the former said their standard of living had declined over the course of the pandemic, compared to only 34% who had not used the scheme. However, in both cases, the plurality answer was no change in living standards (48% of

those who has used the SEISS and 47% of those who had not).

Recently self-employed people in low and middle income households – who were the group most likely to be ineligible for the SEISS during much of the pandemic – seemingly fared better in terms of their finances than mid-term or long-term self-employed respondents: whereas 27% of recently self-employed people in low and middle income households reported improvements to their standard of living during the pandemic, this figure was only 18% for mid-term self-employed and 8% for long-term self-employed. As with other groups though, the plurality answer was no change in living standards for recently (40%), mid-term (49%) and long-term (50%) self-employed individuals.

The overall picture emerging from our fieldwork is broadly consistent with secondary evidence on the financial impact of the pandemic on self-employed people. Admittedly, in our fieldwork questions focused on overall living standards and not specifically income as in other surveys. But wider evidence suggests that a significant minority of self-employed people did experience financial hardship during the pandemic.

As chapter one showed, wider evidence affirms our findings of widespread financial difficulty for self-employed people during the pandemic.[66] In contrast to our findings, however, the LSE found that 38% of those under the age of 30 reported struggling financially compared to 27% of those over 30. As Chart 3.2 above shows, younger age groups in our polling were less likely than older age groups to say that their standard of living had decreased.

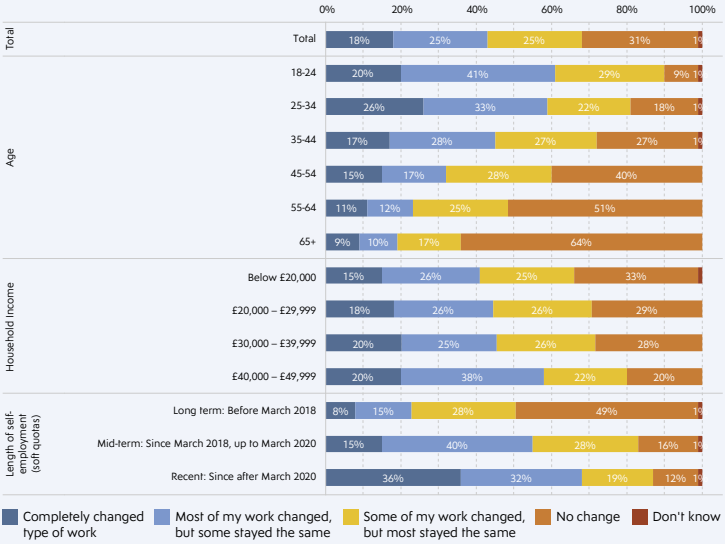
Occupational experiences

In response to the impact of the pandemic on their work, the majority of self-employed individuals in low and middle income households changed the way they work to some extent, whether in terms of the type of work they do or the hours they work. Almost one in five (18%)

66. Jack Blundell, Stephen Machin and Maria Ventura, "Covid-19 and the self-employed – 18 months into the crisis", https://cep.lse.ac.uk/pubs/download/cepcovid-19-025.pdf (2021).

of self-employed individuals in low and middle income households reported that they had 'completely changed' the type of work they do, while a further 50% (25% for each option) reported that 'most' or 'some' of their work has changed, as illustrated in Chart 3.3 below.

Chart 3.3. Impacts of pandemic on type of work among self-employed individuals in low and middle income households, by age, household income and length in self-employment



Base: 1,583 respondents

Admittedly, the most common answer among self-employed individuals in low and middle income households was that there had been no change in the type of work that they do (31%).

There was considerable variation among different groups in terms of how much their work has changed during the pandemic. This is shown in Chart 3.3, above.

In particular, 61% of young people aged 18-24 who are self-employed and living in a low or middle income household reported having

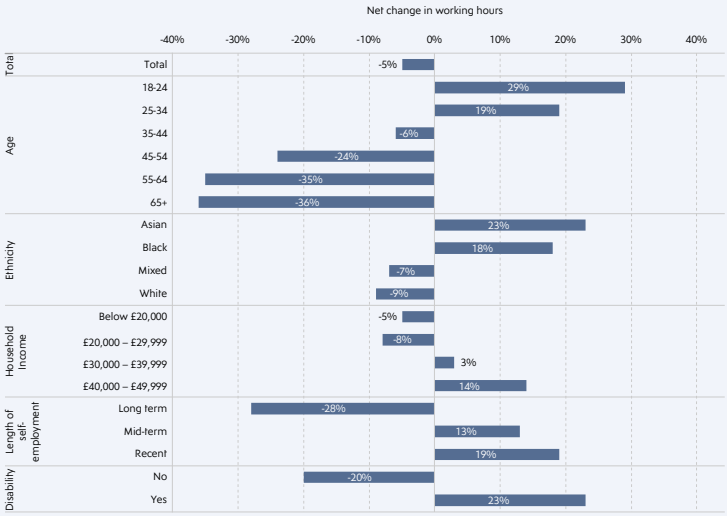
changed the type of work they do 'completely' or 'mostly' during the pandemic, compared to just 23% of those aged 55-64 and 19% aged 65+.

There was slight variation by household income level as well. The majority (58%) of those in households with between £40,000 and £49,999 in income completely or mostly changed their type of work, whereas only 41% of those in households earning below £20,000 said the same. This is somewhat surprising given the disruption and loss of income associated with the pandemic.

Finally, there was a pronounced variation by length of self-employment, with those in self-employment for longer being much less likely to have made major changes to their work. Only 23% of long-term self-employed completely or mostly changed their work, compared to the equivalent figure of 68% for those recently self-employed.

The impact of the pandemic on working hours of self-employed individuals in low and middle income households was finely balanced: in total, 31% of such self-employed people increased their hours, while 36% reduced their hours and 33% saw no change. Chart 3.4, below, shows the net impact on working hours for a selection of different demographic groups who were self-employed and from a low or middle income household. This net figure is calculated as the proportion of respondents who had 'greatly' or 'slightly' increased their working hours minus the equivalent sum for those who had reduced their working hours. Positive values therefore imply that more people increased than reduced their hours in that demographic group, while the opposite is true for negative figures.

Chart 3.4. Impact of pandemic on working hours of self-employed individuals in low and middle income households by age, household income, ethnicity, disability status, length in self-employment and type of self-employment



Base: 1,583 respondents

The most notable variation was by age. The net change in working hours among those aged 18-24 was 29%; conversely, among those aged 55-64 and 65+ the equivalent figures were -35% and -36%.

Strikingly, disabled self-employed individuals who live in a low or middle income household were considerably more likely to have increased their hours, seeing a net change in working hours of 23% versus a change of -20% among non-disabled self-employed people.

People who recently entered self-employment and over the medium term were significantly more likely to have increased their hours: the net change among these groups was 19% and 13% respectively, compared to -28% among long-term self-employed people.

There was some variation, though to a lesser extent, by household income and ethnicity. Those in the highest-income households had a net

change in working hours of 14%, whereas among households earning below £20,000 this figure was -5%.

Generally, ethnic minorities were also more likely to have increased their hours. In particular, Asian and Black respondents saw net changes to working hours of 23% and 18% respectively, in contrast to white respondents who had a figure of -9%.

Unsurprisingly, there were a range of factors behind changes during the pandemic to the type and hours of self-employed people's work. Largely, in our depth interviews, these were negative. Many experienced difficulties adjusting to remote working:

> "Some work has gone completely. [I] used to meet with families face-to-face to discuss the event such as weddings and funerals and now over phone or internet meets it is harder, you find [out] more face-to-face, such as specifics of what clients really want. Quality of work has lessened because of it."
>
> **Male, 65+, North West, middle income, long-term self-employed**

Others were easily able to adapt their work to adjust to the pandemic but struggled to network and create new business opportunities.

> "Hasn't impacted a lot, because farming had to carry on due to food chain and we were essential workers. But has impacted support side of the industry: we cannot interact with other farmers, no agriculture shows...which created opportunity such as networking and winning competitions and working and business opportunities."
>
> **Female, 25-34, South West, low income, mid-term self-employed**

Wider research has found that, overall, self-employed people saw reduced hours during the pandemic. The LSE found that in August 2021, 39% of self-employed people had less work than they would

normally have at that time of year.[67] This reflects earlier findings from the LSE showing a change in the distribution of working hours: the proportion of self-employed people working ten or less weekly hours increased from 16% in February 2020 to 32% in August 2020.[68]

However, these figures disguise considerable variation. Analysis of the Labour Force Survey by Nottingham University Business School found that "the main impact of the pandemic has been in the distribution of typical and maximum hours … typical [pre-pandemic] hours were concentrated around 27 to 45 hours, maximum hours of between 70 to 73 hours per week, and a median of 40 hours. After the pandemic typical paid hours were concentrated between 25 to 45 hours per week, maximum hours up to 75, while the median remained at 40 hours".[69]

In our polling, loss of income was the most commonly reported negative work-related impact on self-employed people in low and middle income households, as shown in Table 3.1 below.

There were, however, slight differences in how various demographic groups perceived the impact of COVID on their work. Notably, while almost three in ten respondents aged 45 and up cited loss of income as the biggest negative impact of COVID on their work, one in five of those aged 18 to 34 said the same.

Conversely, younger people who were self-employed in low and middle income households were, relatively speaking, more likely to see uncertainty around government policy as the biggest negative impact (19% among 18-24s versus 8% among the 65+ age group).

Table 3.1 below summarises the proportion of each demographic group who were self-employed in low and middle income households which reported experiencing a variety of negative impacts on their work. The most common answer among each demographic group is highlighted.

67. Blundell, Machin and Ventura, "Covid-19 and the self-employed – 18 months into the crisis".
68. Jack Blundell, Stephen Machin and Maria Ventura, "Covid-19 and the self-employed: six months into the crisis", https://cep.lse.ac.uk/pubs/download/cepcovid-19-012.pdf (2020).
69. Luis D. Torres, Tracey Warren and Annegreet Veeken, and the UK Women's Budget Group, "How has self-employment changed in the COVID-19 UK?", https://www.nottingham.ac.uk/business/documents/research/carrying-the-work-burden-of-covid-19/research-summary-three-how-has-self-employment-changed-in-the-covid-19-uk.pdf (2021).

Table 3.1. Negative work-related impacts of the pandemic on self-employed individuals in low and middle income households by age, household income, ethnicity, length in self-employment

Demographic	Group	Loss of income	Reduced demand for my work	Uncertainty (around government policy and the COVID situation)	Reduced trading capacity due to COVID-19 restrictions	Difficulty networking or maintaining client relationships	My sector was shut down	Less efficiency in the way I work	Other	Don't know
Total		24%	15%	14%	10%	10%	10%	6%	4%	7%
Age	18-24	20%	10%	19%	13%	10%	12%	13%	–	4%
	25-34	21%	13%	14%	12%	15%	11%	8%	1%	5%
	35-44	23%	19%	14%	9%	10%	11%	5%	2%	7%
	45-54	28%	17%	16%	8%	8%	7%	5%	3%	7%
	55-64	27%	16%	11%	9%	7%	8%	1%	11%	10%
	65+	28%	15%	8%	6%	10%	4%	2%	18%	9%
Household Income	Below £20,000	27%	17%	14%	10%	7%	8%	5%	5%	6%
	£20,000 – £29,999	21%	15%	14%	11%	12%	11%	7%	3%	5%
	£30,000 – £39,999	24%	13%	15%	10%	11%	13%	7%	2%	6%
	£40,000 – £49,999	11%	14%	14%	15%	23%	7%	7%	2%	6%
Ethnicity	White	25%	16%	15%	9%	9%	9%	5%	5%	7%
	Asian	22%	12%	11%	14%	17%	7%	16%	–	1%
	Black	18%	16%	13%	13%	11%	16%	8%	1%	3%
	Mixed	26%	16%	11%	10%	17%	11%	6%	–	3%
Length of self-employment	Long term	28%	18%	12%	8%	7%	8%	4%	6%	8%
	Mid-term	17%	12%	17%	11%	14%	14%	10%	1%	4%
	Recent	23%	14%	15%	12%	11%	9%	7%	3%	6%

Base: 1,583 respondents

The most common answer, by a considerable margin, among almost all demographic groups as to the largest negative work-related impact of the pandemic was loss of income.

Among the self-employed in the lowest-income households (below £20,000), more than a quarter of respondents saw loss of income as their biggest challenge; this figure was just 11% for the self-employed in highest-income households we polled. Rather, self-employed in higher-income households were considerably more likely to identify difficulty networking or maintaining client relationships as the main challenge to their work (7% of those below £20,000 and 23% of those above £40,000).

There was little variation on this question across other demographic groups, although a somewhat higher percentage of those in the oldest age group reported loss of income as the most significant negative work-related impact (28%) than the youngest age group we polled (20%).

There was also slight variation by ethnicity. While a quarter of white self-employed people in low and middle income households mentioned loss of income as the key negative work-related impact of the pandemic, this figure was slightly lower (18%) among black respondents.

There was a similar variation by length of self-employment, though it was mid-term self-employed people who had the lowest proportion of people (17%) citing loss of income as the main work-related negative impact of the pandemic.

However, it is worth highlighting that many self-employed people from low and middle income households saw positive work-related outcomes from the pandemic. These are mostly connected to time savings from not having to commute or being able to work more efficiently than before.

> "Whilst the way I work has changed the demand increased for what I do … not being able to commute means I can have more meetings and work and thus earn more."

Female, 45-54, London, middle income, mid-term self-employed

> "Fully online now, in my view that is actually fantastic. Online tuition was looked down on a few years ago and now we are three or four years ahead."

Male, 25-34, South East, middle income, long-term self-employed

Admittedly, in our polling the most common response to highlighting a positive work-related impact of the pandemic was 'don't know.' However, this was only a small plurality. In total, 24% of respondents gave this answer. And there was variation between socio-demographic groups in terms of which positive impacts were relatively more or less common. This is shown in Table 3.2 below.

Table 3.2. Positive work-related impacts of the pandemic on self-employed individuals in low and middle income households by age, household income, ethnicity and length in self-employment

Demographic	Group	More efficiency in the way I work	I was able to build relationships with clients and partners in new ways	I was able to upskill	Increased demand for my work	I was able to invest in my work	Increased income	I was able to expand my work	Other	Don't know
Total		12%	12%	11%	10%	9%	7%	7%	8%	24%
Age	18-24	14%	18%	13%	14%	13%	10%	10%	0	6%
	25-34	12%	15%	11%	12%	12%	10%	9%	3%	15%
	35-44	11%	12%	13%	11%	9%	7%	8%	5%	25%
	45-54	12%	9%	11%	8%	8%	5%	6%	8%	32%
	55-64	12%	6%	9%	5%	3%	5%	3%	21%	36%
	65+	10%	6%	9%	9%	–	3%	1%	27%	35%
Household Income	Below £20,000	13%	11%	11%	9%	8%	6%	6%	9%	26%
	£20,000 – £29,999	12%	13%	13%	11%	9%	6%	8%	8%	21%
	£30,000 – £39,999	11%	10%	14%	11%	9%	10%	10%	6%	19%
	£40,000 – £49,999	11%	19%	10%	12%	10%	15%	9%	6%	9%
Ethnicity	White	11%	11%	11%	10%	8%	7%	7%	10%	27%
	Asian	13%	12%	16%	19%	11%	13%	7%	1%	7%
	Black	13%	18%	18%	8%	18%	6%	9%	1%	9%
	Mixed	21%	24%	4%	9%	10%	6%	9%	7%	10%
Length of self-employment	Long term	11%	8%	10%	8%	5%	6%	5%	13%	35%
	Mid-term	15%	15%	12%	15%	11%	9%	10%	2%	12%
	Recent	13%	15%	15%	10%	12%	8%	9%	5%	13%

Base: 1,583 respondents

Self-employed people aged 18-34, recently self-employed people, and those in households earning above £40,000 were relatively more likely to mention being able to build relationships with clients in new ways, being able to work more efficiently and having increased demand for their work as the biggest positive impact of the pandemic on their work. In both of these groups, this was either the most or jointly most frequently mentioned positive work-related impact of the pandemic.

Conversely, those who were in older age groups (35 and above), long-term self-employed and those in lowest-income households were most likely to answer 'don't know,' as shown above in Table 3.2.

In some groups, other positive work-related impacts were more prominent. Asian respondents, and those in mid-term self-employment, were more likely than most other groups to cite increased demand for their work as the main positive work-related impact of the pandemic. Meanwhile, Black respondents were more likely to say that they had been able to invest in their work.

Broader evidence on the impact of COVID-19 on the self-employed overwhelmingly emphasises the negative aspects. But there is evidence that some groups of self-employed, particularly those who find their work primarily through apps, reported having more work than usual during the pandemic.[70] In a 2021 survey for IPSE, 19% of freelancers also suggested that the pandemic had a positive impact on their business overall.[71]

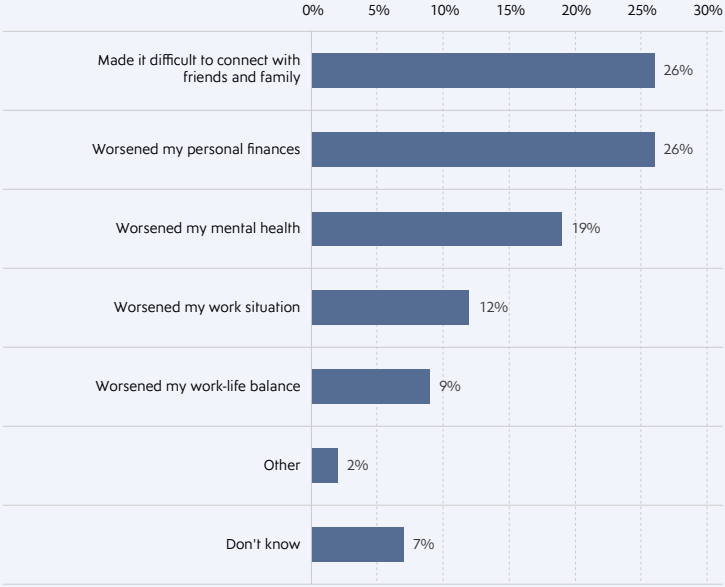
General impacts

Besides financial and occupational impacts – in other words, aspects of the pandemic that directly impacted self-employed people's work – COVID-19 also affected the lives of self-employed people more generally in many ways. Chiefly, these included impacts on social connections and mental health.

Chart 3.5 below outlines the main general negative impacts of the pandemic on self-employed people in low and middle income households.

70. Blundell, Machin and Ventura, "Covid-19 and the self-employed – ten months into the crisis".
71. IPSE, "The hidden cost: exploring the impact of the pandemic on freelancer mental health", https://www.ipse.co.uk/policy/research/mental-health-report-june2021.html (2021).

Chart 3.5. Biggest negative impact of COVID-19 on general life

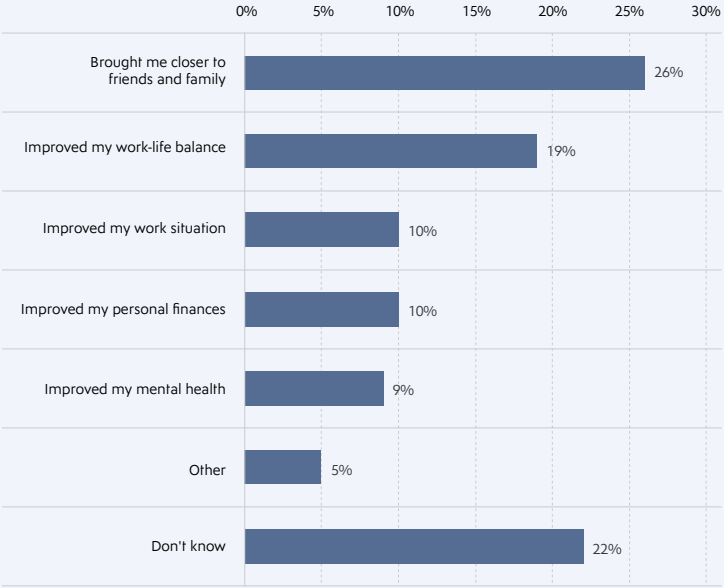


Base: 1,583 respondents

The three most common negative impacts on the general lives of self-employed people in low and middle income households were difficulty connecting with friends and family (26%), worsened personal finances (26%) and worsened mental health (19%).

Chart 3.6 below illustrates the most common positive aspects of the pandemic.

Chart 3.6. Biggest positive impact of COVID-19 on general life



Base: 1,583 respondents

The most common positive general impacts were bringing people closer to friends and family (26%) and improved work life balance (19%). Strikingly, a significant proportion of respondents were unable to identify a positive impact of COVID-19 on their general life and responded 'don't know' (22%).

The next sections explore in further detail the social and psychological impacts the pandemic had on self-employed people in low and middle income households.

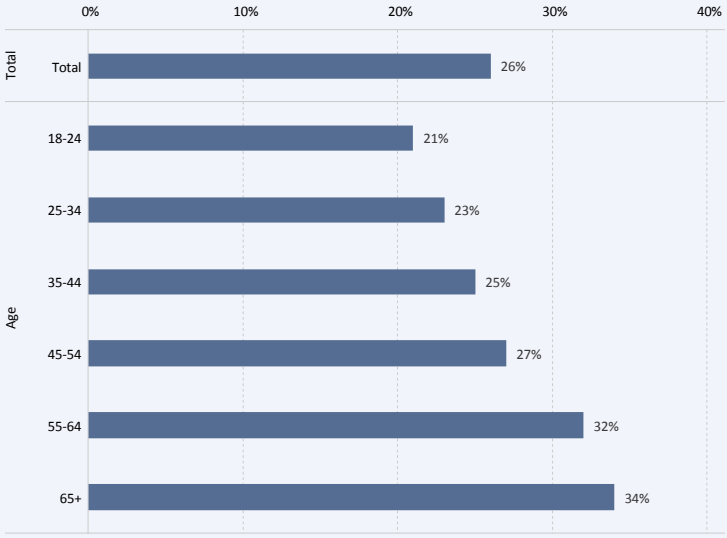
Social experiences

In our fieldwork, the impact of the pandemic on self-employed people's social connections was a recurring theme. Indeed, when asked about the biggest negative and positive impact of COVID-19 on their lives, the

most common response from self-employed people in low and middle income households in each case was related to social experiences, as outlined above in Charts 3.5 and 3.6.

For the most part, respondents struggled with a lack of social contact and connections, as well as added stress in relationships, due to lockdowns and other restrictions. Overall, 26% of self-employed respondents cited difficulty in connecting with friends and family as the biggest negative impact COVID-19 had on their life. While this proportion was similar across most demographic groups, older self-employed people were particularly likely to report a lack of social connections as the most significant negative impact of COVID-19, as Chart 3.7 below shows.

Chart 3.7. Proportion of respondents citing difficulty in connecting with friends and family as the biggest negative impact COVID-19 had on their life by age group



Base: 1,583 respondents

Some respondents in depth interviews detailed the impact that the pandemic had on their family relations:

> "I felt quite lonely, it's so abnormal to not go and see people. I feel that I want a minute to myself and haven't had that due to the pandemic. Has affected my daughter's skills such as not being able to socialise with peers her age ... a sense of living in each other's pocket."
>
> **Female, 35-44, South West, middle income, recently self-employed**

> "Our family relations have been damaged ... we have a difference of opinion between my wife my daughter and me."
>
> **Male, 65+, South West, low income, long-term self-employed**

While the impact of the pandemic on social connections was predominantly negative, there was evidence in our fieldwork of positive impacts on social connections as well. In particular, while the quantity and frequency of social connections deteriorated, a significant proportion (26%) in our polling said that they had been able to deepen existing social connections over the course of the pandemic. The proportion of respondents saying this was fairly consistent across demographic groups.

In our interviews, a significant minority of interviewees said the pandemic presented an opportunity to cultivate deeper ties with their family.

> "It has allowed me and my family and friends to come closer and it's not just about our day to day life, more about how as a family we can pull together to get through"
>
> **Male, 25-34, South West, low income, recently self-employed**

> "My family life as a mum and as a wife [has improved], it brought us closer and I'm grateful for that"
>
> **Female, 35-44, South East, low income, long-term self-employed**

Evidence on social relationships and COVID-19 specifically is scarce. But one qualitative study of 20 individuals in the UK largely echoes the findings from our fieldwork. Respondents experienced extensive disruption to their social relationships. Largely, this was simply due to there being fewer opportunities to meet people. Some relationships were also disrupted because the pandemic created or exacerbated tensions in the household and political disagreements. On the other hand, many respondents in the study highlighted ways in which the pandemic had strengthened pre-existing relationships. This was particularly the case with families, where many described the benefits of multigenerational ties in the household.[72]

Psychological experiences

Our research also found that a significant proportion of self-employed people in low and middle income households mentioned the pandemic having negative impact on their mental health.

In our polling, there was a significant minority of respondents who cited worsened mental health as the most significant negative impact of the pandemic on their life (19%). This was a lower proportion than difficulty connecting with friends and family and worsened personal finances, but still made worsened mental health the third most common answer given by self-employed people in low and middle income households as the biggest negative impact on their life.

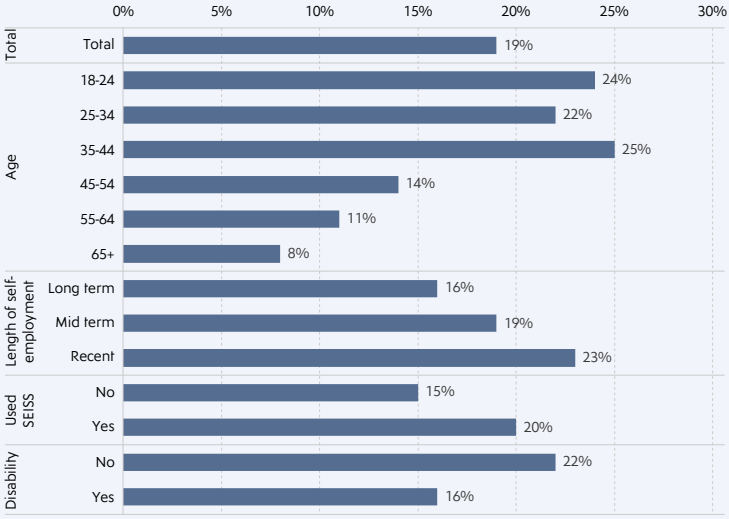
Conversely, when prompted to cite the biggest positive impact of the pandemic, only 9% mentioned improved mental health over the

72. Mira Leonie Schneiders, Constance R.S. Mackworth-Young and Phaik Yeong-Cheah, "Between division and connection: a qualitative study of the impact of COVID-19 restrictions on social relationships in the United Kingdom", https://www.ncbi.nlm.nih.gov/pmc/articles/PMC9065928/ (2022).

course of the pandemic, showing that the psychological experience of COVID-19 has largely been negative for self-employed people in low and middle income households.

In particular, younger, disabled, more recently self-employed people, and those who had not used the SEISS, were more likely to report a decline in general mental wellbeing as the most significant negative impact of COVID on their life. This is shown below in Chart 3.6.

Chart 3.8. Proportion of self-employed individuals reporting a decline in mental health as the most significant negative impact of COVID on their life by age group, length of self-employment, use of SEISS and disability status



Base: 1,583 respondents

A significant proportion of respondents in our polling identified worsened personal finances as the biggest negative impact of COVID-19 on their life, as Chart 3.5 earlier shows. To some extent, this interacts with the psychological impact of the pandemic. Our depth interviews revealed that for a significant minority of respondents, the financial

impact of reduced trade during the pandemic itself had a knock-on effect on mental health, as people worried about making ends meet.

> "Lack of money – living hand to mouth. I changed my work and did less hours so that meant less income and … classed as a new business so I couldn't get SEISS, only Universal Credit … with the stress of all the money worries I became ill."

Female, 55-64, North West, low income, long-term self-employed

> "I've been left with no money and no work because I can't visit my clients … I had some clients that went to furlough so lost them. I am heavily dependent on clients but businesses need to survive rather than spend money on my services."

Female, 55-64, South East, middle income, long-term self-employed

> "Lost all gigs and … had to cancel events and all the DJ regularly monthly gigs … [my] mental health is in decline, I'm on anxiety medication"

Male, 25-34, South West, middle income, mid-term self-employed

Some others also expressed disillusionment with perceived government rule-breaking and found adapting to the uncertainty around COVID-related restrictions stressful.

> "[There was a] lack of clarity from central government on what we could and could not do and politicians were challenging the rules themselves … people making it up as they went along."

Male, 45-54, South West, low income, long-term self-employed

> "My sister is a florist for weddings and rules around weddings have been a nightmare, i.e. numbers and rules changing and lack of clarity has been bad"
>
> **Female, 45-54, London, middle income, mid-term self-employed**

Conversely, for a small minority of self-employed in low and middle income households, the pandemic brought about positive changes to their mental health. Nine percent of respondents in our polling cited this as the biggest positive impact of COVID-19 on their life. Our depth interviews showed that this was largely a result of more time spent with family members and deepened relationships as a result.

> "My husband and family have been spending more time together and he wouldn't have had that otherwise as things like home-schooling had to be done … and we spent a lot of time together such as walks that normally would have been a miss for him due to him catching up with paperwork."
>
> **Female, 35-44, South West, middle income, recently self-employed**

> "Extra time to spend with my family … [we were able to] watch more films together and sat down and ate together as a family and played games and spoke more and [there was a] better sense of family unity."
>
> **Female, 45-54, London, middle income, mid-term self-employed**

Besides strengthened relationships, another common theme to emerge among self-employed people in low and middle income households was improved work-life balance. In our polling, 19% identified an improved work-life balance as the biggest positive impact of COVID-19. During our depth interviews, respondents outlined the impact this had on their

mental health, and specifically pointed towards having lower stress as a result of not having to commute, as well as more time to do things outside of work:

> "My mental health is better because I am not commuting up to three hours a day and not having stress of running for trains and buses… stress levels reduced in the house … COVID so made me re-assess what is important, such as moving out of London and have a quiet life and not being as materialistic as we were and what we can live without – I'm a more appreciative and grounded person."
>
> **Female, 45-54, London, middle income, mid-term self-employed**

Unsurprisingly, secondary evidence also points to widespread negative impacts on the mental health of self-employed people during the pandemic. A report from IPSE found that before the pandemic, 68% of self-employed reported having 'excellent' or 'good' mental health; by July 2020, this had fallen to 39%. Conversely, the proportion of respondents reporting 'poor' or 'very poor' mental health had increased from 6% to 26%.[73] For many, the impacts were severe and bled into occupational impacts. A majority of respondents in another IPSE survey from 2021 (61%) said they felt unable to concentrate on work, while 60% reported reduced productivity. One in seven freelancers with poor mental health (14%) had to delay or cancel projects as a result.[74]

73. IPSE, "The impact of the coronavirus crisis on freelancers' mental health", https://www.ipse.co.uk/policy/research/the-impact-of-the-coronavirus-crisis.html (2020).
74. IPSE, "The hidden cost: exploring the impact of the pandemic on freelancer mental health", https://www.ipse.co.uk/policy/research/mental-health-report-june2021.html (2021).

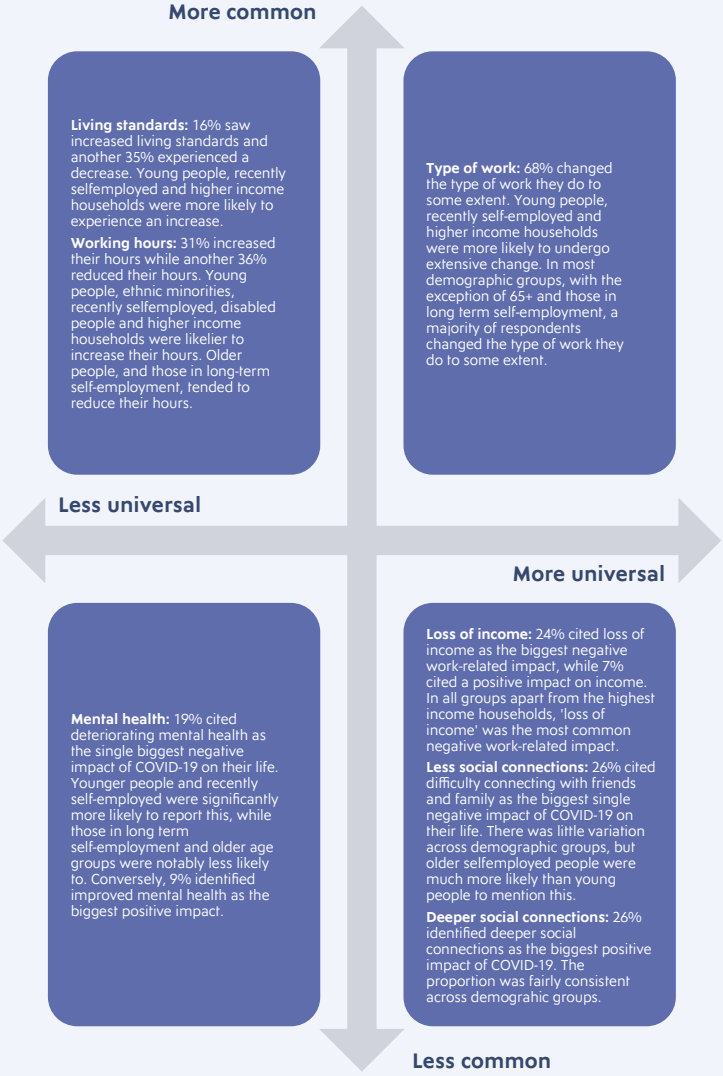
Conclusion

The financial, occupational, social and psychological impacts of the pandemic are, to a large extent, interlinked. The psychological impacts, though, can be seen as a product of the other three types of impact.

These impacts were also felt unevenly, and to varying degrees, across demographic groups of self-employed people in low and middle income households. Broadly, the impacts can be described in terms of: how common they were, or the proportion of self-employed people in low and middle income households who experienced them; and how universal they were, in other words, the extent to which the impacts were homogeneous or varied across different demographic groups.

Figure 3.1, below, categorises various impacts of COVID-19 based on evidence from our polling. Of course, our interviews uncovered additional nuances behind each of these impacts, but the polling enabled us to assess how widespread different impacts of the pandemic were.

Figure 3.1. Overview of financial, occupational, psychological and social impacts of the pandemic on self-employed people in low to middle income households



As Figure 3.1 above shows, different impacts of COVID-19 have given rise to different levels and types of variation among demographic groups. There are some demographic groups that consistently display variation, while in other groups variation is evident on some issues but not for most others.

Across the majority of financial, occupational, social and psychological impacts we investigated, there was extensive variation by age group. Younger self-employed people in low and middle income households were considerably more likely than older age groups to change their type of work, work longer hours, experience increased living standards and identify worsened mental health as the biggest negative impact of the pandemic. Older respondents, meanwhile, were somewhat more likely to identify difficulty connecting with friends and family as the biggest negative impact of COVID-19.

There was extensive variation by time in self-employment across financial, occupational and psychological impacts. Recently self-employed people were more likely to have increased their living standards, changed their type of work, increased their hours and also to report a decline in mental health as the biggest negative impact of COVID-19 on their life. There was little obvious variation by length of self-employment in terms of social impacts.

There was variation by household income when it came to financial and occupational impacts. Households on higher incomes were considerably more likely to have increased their living standards, increased their hours and changed their type of work. However, less variation by household income was evident when it came to social and psychological impacts.

Some other demographic groups showed variation in some specific impacts rather than a more across-the-board variation as with the demographic groups mentioned above. Ethnic minorities were substantially more likely to increase their working hours, while disabled respondents were also more likely to have increased their hours and also to have identified a decline in mental health as the biggest impact of COVID-19 on their life.

Chapter Four:
Governmental support for self-employed people during the pandemic

Chapter Three outlined the key financial, occupational, social and psychological experiences of the pandemic of self-employed people in low and middle income households. Chapter Four examines in more detail the experience of different types of self-employed people in accessing and using governmental sources of support.

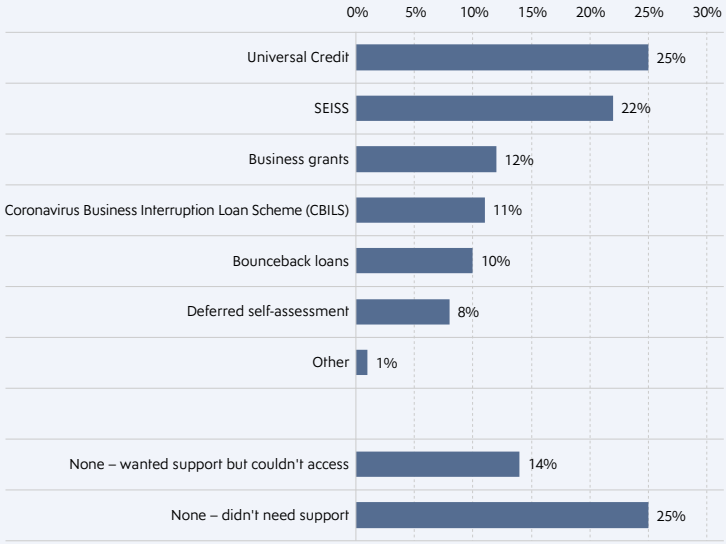
Financial support

Self-employed people in low and middle income households accessed a range of governmental financial support during the pandemic. As Chapter One highlighted, the main forms of governmental financial support were the SEISS, Universal Credit and Bounce Back Loans. Here, we also include business grants and deferred self-assessment.

During the pandemic, local authorities were given funding to provide business support grants to local firms. Self-employed people also had the option during the pandemic to defer their July 2020 self-assessment 'payment on account' to the end of January 2021 – in other words, to postpone their tax liabilities.

Chart 4.1, below, summarises these main sources of governmental financial support, in descending order of usage.

Chart 4.1. Sources of governmental financial support used by self-employed people in low and middle income households during the pandemic



Base: 1,583 respondents

The most common form of governmental support used was Universal Credit. This was used by a quarter of self-employed people in low and middle income households. The same proportion (25%) of respondents did not access governmental support because they did not need it. The SEISS was the next most common form of support, with 22% of self-employed people in low and middle income households using it. Strikingly, a significant proportion (14%) of self-employed people in low and middle income households who wanted some form of governmental support during the pandemic were unable to access it. The fifth most common option was business grants, which was used by 12% of self-employed people in low and middle income households during the pandemic.

The polling highlighted some notable differences in the kind of

financial support different socio-demographic groups used. There was variation by age, region, education levels, income, ethnicity, sector, disability, length and type of self-employment. Table 4.1, below, shows the relative likelihood of using each of these forms of financial support for various demographic groups of self-employed people in low and middle income households by calculating the difference, in percentage points, between the proportion of the whole polling sample that used that type of governmental financial support and the proportion of that particular demographic group that used that form of support.

Green cells indicate that the form of governmental financial support was used relatively less than average, while red cells indicate that this form of support was used relatively more. For the option 'didn't need support' this colour scale has been inverted, meaning that green cells indicate that demographic group was less likely to need support overall. Due to low variability, 'other' forms of support have been excluded.

Table 4.1. Likelihood of using governmental financial support relative to sample average in percentage points (ppts), by demographic group

Demographic	Group	UC	SEISS	Business grants	CBILS	Bounce Back Loans	Deferred self-assessment	None – didn't need support
Total		0 ppts	0 ppts	0 ppts	0 ppts	0 ppts	0 ppts	0 ppts
Age	18-24	5 ppts	-4 ppts	10 ppts	14 ppts	7 ppts	11 ppts	-14 ppts
	25-34	9 ppts	-2 ppts	3 ppts	9 ppts	7 ppts	6 ppts	-10 ppts
	35-44	7 ppts	-3 ppts	1 ppts	-2 ppts	-2 ppts	-1 ppts	-1 ppts
	45-54	-5 ppts	4 ppts	-3 ppts	-8 ppts	-4 ppts	-4 ppts	9 ppts
	55-64	-11 ppts	8 ppts	-7 ppts	-9 ppts	-8 ppts	-6 ppts	10 ppts
	65+	-21 ppts	-4 ppts	-9 ppts	-10 ppts	-7 ppts	-6 ppts	26 ppts
Household Income	Below £20,000	4 ppts	-1 ppts	-2 ppts	-2 ppts	-3 ppts	-1 ppts	0 ppts
	£20,000 – £29,999	0 ppts	4 ppts	2 ppts	2 ppts	2 ppts	2 ppts	-1 ppts
	£30,000 – £39,999	-1 ppts	-5 ppts	-1 ppts	2 ppts	1 ppts	1 ppts	-3 ppts
	£40,000 – £49,999	-9 ppts	1 ppts	13 ppts	10 ppts	5 ppts	9 ppts	5 ppts
Ethnicity*	White	-1 ppts	1 ppts	-1 ppts	-3 ppts	-2 ppts	-2 ppts	3 ppts
	Asian	2 ppts	-2 ppts	5 ppts	9 ppts	8 ppts	9 ppts	-7 ppts
	Black	10 ppts	-5 ppts	9 ppts	14 ppts	6 ppts	11 ppts	-15 ppts
	Mixed	8 ppts	-2 ppts	1 ppts	18 ppts	13 ppts	11 ppts	-14 ppts
Changes in standard of living within the past year	Increased	10 ppts	-4 ppts	13 ppts	13 ppts	10 ppts	8 ppts	-14 ppts
	Same	-5 ppts	1 ppts	-1 ppts	-1 ppts	-2 ppts	-1 ppts	8 ppts
	Decreased	4 ppts	2 ppts	-4 ppts	-5 ppts	-3 ppts	-1 ppts	-6 ppts
Length of self-employment	Long term	-4 ppts	9 ppts	-5 ppts	-7 ppts	-4 ppts	-4 ppts	5 ppts
	Mid-term	2 ppts	-4 ppts	8 ppts	11 ppts	6 ppts	7 ppts	-8 ppts
	Recent	7 ppts	-12 ppts	1 ppts	3 ppts	0 ppts	3 ppts	-2 ppts
Disability	Yes	8 ppts	-4 ppts	6 ppts	7 ppts	4 ppts	5 ppts	-10 ppts
	No	-4 ppts	3 ppts	-3 ppts	-4 ppts	-3 ppts	-2 ppts	6 ppts

Base: 1,583 respondents. Some demographic subgroups have been excluded due to low sample size. This is indicated by an asterisk on the larger category. The option 'didn't need support' is displayed in an inverted colour code

Overall, younger people, ethnic minorities and disabled people were, relatively speaking, notably more likely to have used all different types of governmental financial support. Interestingly, self-employed respondents who reported seeing an increase in their living standards over the last year were more likely than the sample average to use all different types of governmental financial support.

There was also variation in the types of governmental financial support used. Self-employed people in low and middle income households aged 18 to 24 relied relatively more on Universal Credit than the SEISS (30% and 18% respectively), whereas the inverse was true for older respondents: those aged 65 and above relied less on Universal Credit (4%) and a similar amount for the SEISS (18%), though those in the 45-54 and 55-64 age groups relied less than the sample average on the SEISS. As Table 4.1 above also shows, there was a broad pattern of younger people relying relatively more on Universal Credit, as well as business grants, CBILS, Bounce Back Loans and deferred self-assessment, while older people relied relatively more on the SEISS.

The composition of support used also differed considerably between different household income groups. In particular, the highest-income households were much more likely than average to use business grants and CBILS (13 points and 10 points above average respectively) and slightly more likely to use deferred assessment and Bounce Back Loans, while relying relatively less on Universal Credit and using the SEISS in line with the sample average.

Similarly, there was significant variation in how governmental financial support was used by ethnic group. Black people relied particularly heavily on Universal Credit (35% used Universal Credit, 10 percentage points above the sample average), while people from a mixed or other ethnic background were, relatively, the most likely to use schemes such as CBILS, Bounce Back Loans and deferred self-assessment. White people's usage of all types of governmental financial support was very close to the overall sample average.

Furthermore, those in low and middle income households who became

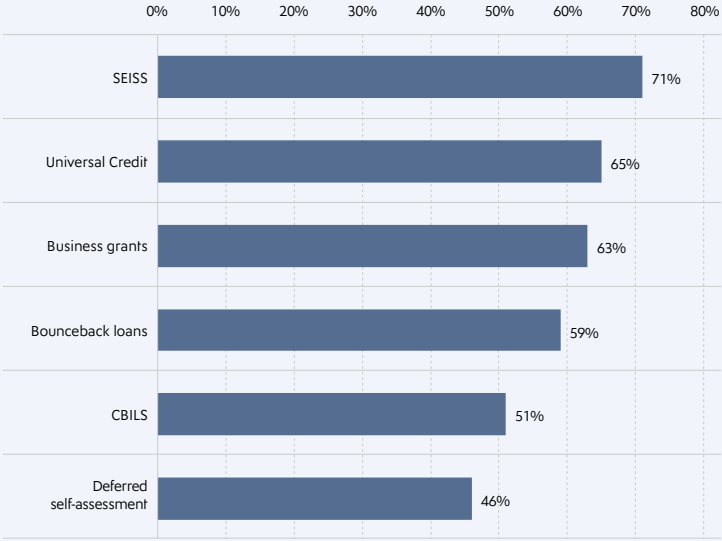
self-employed recently were significantly more likely to use Universal Credit compared to SEISS (seven percentage points above the sample average for Universal Credit compared to 12 percentage points less for the SEISS), which is unsurprising as the criteria for the SEISS made it more difficult for recently self-employed people to apply, as explained in detail in Chapter One.

Perceptions of governmental financial support

When it came to perceptions of the main different sources of governmental financial support by self-employed in low and middle income households, this was, on the whole, positive. To gauge how positively governmental financial support schemes were seen by respondents who used them, a net helpfulness rating ('very' or 'somewhat' helpful minus 'very' or 'somewhat' unhelpful) was used.

The SEISS was seen as the most helpful source of governmental financial support (71%) by self-employed in low and middle income households, followed by Universal Credit (65%), business grants (63%), CBILS (51%) and deferred self-assessment (46%), which polled as the least helpful. This is all shown in Chart 4.2 below.

Chart 4.2. Government support schemes by net helpfulness (helpful minus unhelpful) for self-employed in low and middle income households who used them



Base: SEISS – 351 respondents; Universal Credit – 402 respondents; Business grants – 188 respondents; Bounceback loans – 153 respondents; CBILS – 171 respondents; deferred self-assessment – 133 respondents

One of the most common reasons why self-employed people found governmental financial support helpful was because of the amount of money received. In the depth interviews, a notable minority of respondents pointed specifically to the generosity of governmental financial schemes.

> "The ones who needed help have been helped and [are] better off than people who are normal workers."
>
> **Male, 55-64, Yorkshire and the Humber, middle income, long-term self-employed**

> "Because of the SEISS scheme, the government did their best of not allowing self-employed people going on benefits. It has been a good thing"

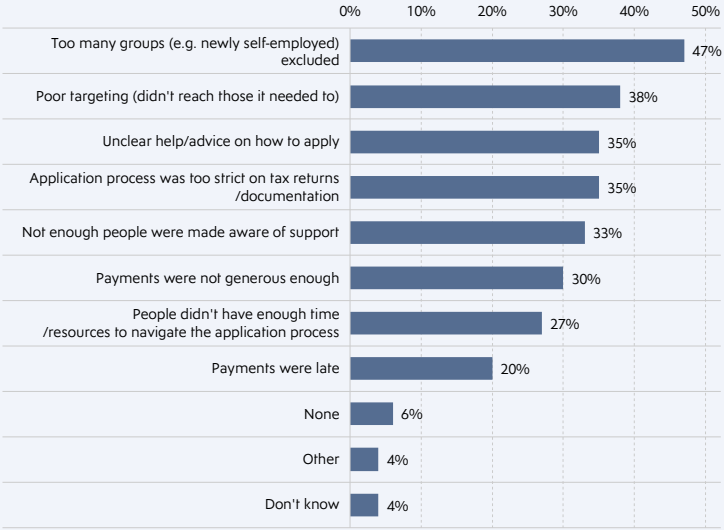
Male, 55-64, North West, low income, long-term self-employed

> "The government has supported self-employed people quite well because the SEISS has come in line with our previous earnings"

Male, 65+, South West, low income, long-term self-employed

The most common general criticism of governmental financial support among self-employed in low and middle income households was that too many people such as the newly self-employed were excluded: almost half (47%) of respondents in our polling raised this concern. This is illustrated in Chart 4.3 below.

Chart 4.3. Main general criticisms of governmental financial support among self-employed people in low and middle income households



Base: 1,583 respondents

Other common criticisms of governmental financial support were that they did not reach those that needed it most (38% of respondents highlighted this), while just over a third of respondents (35%) criticised the clarity of the application process and its requirements around tax returns and documentation.

These complaints are, to a large extent, substantiated by secondary evidence, detailed in Chapter One. In particular, early estimates from October 2020 suggested that the first round of the SEISS excluded around a third of the self-employed.[75] And early rounds of the SEISS did allow a substantial minority of self-employed people to make claims despite suffering no loss of incomes as a result of COVID, while two

75. IPSE, "SEISS increase welcome, but structural problems remain".

thirds of those who did not claim the SEISS had experienced a loss of income.[76]

The common criticisms, that the governmental financial support measures were poorly targeted, did not reach those they needed to and that there was unclear help/advice on how to apply, were echoed in the depth interviews.

> "[The government supported the self-employed] dreadfully. In the first lockdown, [there was] no information and no access for self-employed workers to have a sustainable lifestyle. The government caused people's mental health to go through the floor"
>
> **Male, 45-54, South West, low income, long term self-employed**

> "Very painful experience … My income from other sources such as pensions and savings and interest made me ineligible so I did not qualify. It made me feel extremely upset as others who didn't need it got it and they were still getting more work than me"
>
> **Male, 65+, London, middle income, long-term self-employed**

Indeed, our fieldwork found that a substantial proportion of self-employed individuals in low to middle income households were not reached by governmental financial support. Overall, 14% of self-employed individuals in low to middle income households in our polling reported wanting governmental financial support during the pandemic but being unable to access it. The demographic breakdown of this is shown below in Table 4.2.

76. Resolution Foundation, "Self-employment scheme pays out over £1.3 billion to thriving businesses, but nothing to 500,000 left without work".

Table 4.2. Likelihood of wanting governmental financial support but being unable to access it relative to sample average

Demographic	Group	Wanted support but couldn't access (absolute)	Wanted support but couldn't access (relative)
Total		14%	0 ppts
Age	18-24	9%	-5 ppts
	25-34	11%	-3 ppts
	35-44	15%	1 ppts
	45-54	15%	1 ppts
	55-64	17%	3 ppts
	65+	19%	5 ppts
Standard Industrial Classification*	Agriculture And Fishing	4%	-10 ppts
	Banking, Finance and Insurance	7%	-7 ppts
	Construction	17%	3 ppts
	Distribution, Hotels and Restaurants	15%	1 ppts
	Manufacturing	25%	11 ppts
	Public Admin. Education and Health	13%	-1 ppts
	Transport and Communications	16%	2 ppts
	Other Services	17%	3 ppts
Changes in standard of living within the past year	Increased	10%	-4 ppts
	Same	9%	-5 ppts
	Decreased	21%	7 ppts

Base: 1,583 respondents. Some demographic subgroups have been omitted due to low sample size, denoted by an asterisk in the larger category

There was, overall, little variation by demographic group. However, there were some notable gaps in governmental financial support for self-employed people in low and middle income households during the pandemic.

People in certain sectors, in particular manufacturing, found it harder to access government support: a quarter of those in manufacturing reported wanting support but being unable to access

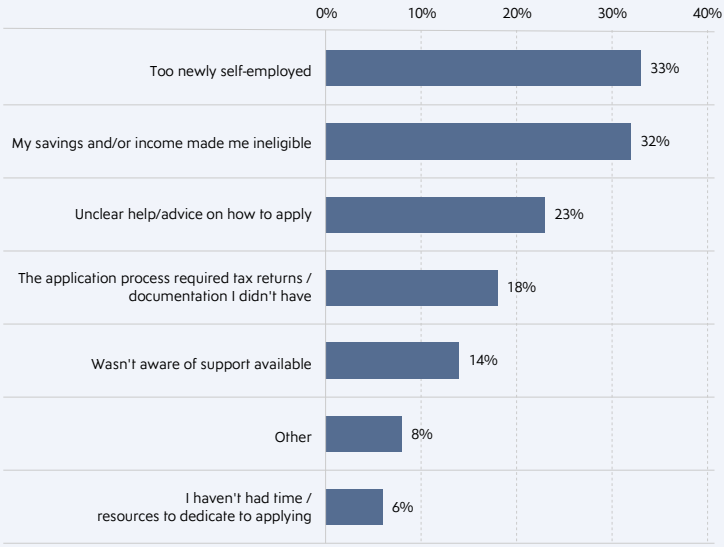
it, 11 percentage points above the overall sample average.

Older age groups seem to have found it slightly more difficult to access governmental financial support. The percentage of self-employed people in low to middle income households unable to access support rose from 9% in the 18-24 age group to 19% in the 65+ age group.

Unsurprisingly, self-employed people who saw a decrease in their standard of living were notably more likely to have wanted support but been unable to access it. The proportion among this group was seven percentage points higher than average.

The reasons for those not being able to access governmental financial support included: being too newly self-employed; the amount of savings and/or income making them ineligible; unclear help/advice on how to apply; the application process requiring tax returns/documentation they didn't have; not being aware of support available; and not having the time or resources to dedicate to applying. This is shown in Chart 4.4 below.

Chart 4.4. Reasons for wanting but being unable to access governmental financial support



Base: 215 respondents who did not access governmental financial support

To a large extent, these results mirror the general criticisms that self-employed people in low to middle income households had of governmental support, outlined in Chart 4.3. The top two reasons for wanting but being unable to access governmental financial support were being too newly self-employed (33%) and being ineligible due to savings or income (32%). The most common general criticism of governmental financial support (outlined in Chart 4.3) was that too many groups of self-employed were excluded. The third most common reason for not being able to access governmental financial support was a lack of clarity on how to apply (23% of respondents); this was also the third most common general criticism of governmental financial support in Chart 4.3.

In our depth interviews, some respondents who missed out on

governmental financial support due to being ineligible shared their experiences of being unable to access government support. Mostly, these criticisms centred on the eligibility criteria for key governmental financial support schemes, particularly the SEISS.

> "Those who did not match the criteria due to not being self-employed long enough or not meeting a certain income threshold were left with nothing and universal credit is appalling – not enough at all! Outrageous."
>
> **Female, 45-54, London, middle income, mid-term self-employed**

> "You can only access [SEISS] grants if you earn more than £2,500 and there were so many caps, I fell out of almost all of them"
>
> **Female, 35-44, South East, low income, long term self-employed**

> "There were issues [with the SEISS] such as turnover limit of 50k but in actual fact if you are running a business and paying yourself, it doesn't mean you are earning that money and saving well. Directors of small companies have been poorly served as there is no recognition that they have gone to zero income overnight"
>
> **Female, 45-54, London, low income, long term self-employed**

A further general criticism of governmental financial support that emerged from the interviews was that the government was too slow to support self-employed people at the start of the pandemic.

> "The government did do a reasonable job eventually, but it took them time to realise that self-employed people needed money."

Male, 55-64, South East, low income, long term self-employed

> "Because the help has not been rapid, I know people who got nothing for a long time. The people I know have struggled and the people with small businesses have shut as they can't afford to carry on"

Female, 55-64, North West, low income, long term self-employed

These criticisms mirror the wait that many respondents experienced before receiving SEISS and Universal Credit, the two most common forms of governmental financial support.

While the SEISS was announced on 26 March 2020, the first grants were not paid out until late May 2020. At the time, there were concerns that, with such a long wait until support started, self-employed people would struggle financially.[77] Indeed, evidence from bank account data suggests that between the start of the first lockdown and the first payments from the SEISS, future SEISS recipients reduced their spending by 13% below the level of a control group with steady income.[78]

Those going on Universal Credit also had a five-week wait before their first payment. During this period, recipients reduced their spending by 11% compared to similar households who had not seen an income fall.[79]

Alongside evidence around the overall helpfulness of governmental financial support for the self-employed as a whole, we explored the

77. George Parker, Jim Pickard and Chris Giles, "Rishi Sunak unveils rescue package for self-employed workers", *Financial Times*, 26 March, 2020.
78. Isaac Delestre, Robert Joyce, Imran Rasul and Tom Waters, "Income protection policy during COVID-19: evidence from bank account data", https://ifs.org.uk/publications/15002 (2020).
79. Ibid.

views of self-employed people on Universal Credit and the SEISS, given that these two governmental financial support schemes were by a significant margin the most widely used by self-employed people in low and middle income households, as Chart 4.1 illustrated earlier.

The SEISS

The SEISS was, on the whole, seen as helpful, with four in five self-employed people in low and middle income households reporting it was very or somewhat helpful in polling, as Chart 4.1 earlier illustrated. However, this conceals a wide variety of attitudes towards the SEISS from different demographic groups. This is summarised below in Table 4.3 below, which shows the absolute net helpfulness rating for each demographic group and the difference in percentage points between the net helpfulness rating for that demographic group and the total sample. As with Table 4.1, lower values are coloured in red – meaning that group found the SEISS relatively less helpful than the sample average – while green cells indicate high values relative to the sample average.

Table 4.3. Perceptions of the SEISS by demographic group by age, region, education level, sector, changes in standard of living, length of self-employment, disability status, type of self-employment and working hours

Demographic	Group	Net Helpful (absolute)	Net Helpful (relative)
Total		71%	0 ppts
Age*	25-34	59%	-12 ppts
	35-44	79%	8 ppts
	45-54	86%	15 ppts
	55-64	78%	7 ppts
Region*	London	51%	-20 ppts
	Midlands	76%	5 ppts
	North	68%	-3 ppts
	South	80%	9 ppts
Education	No qualifications / Level 1	55%	-16 ppts
	Level 2 / Apprenticeship / Other	60%	-11 ppts
	Level 3	83%	12 ppts
	Level 4+	85%	14 ppts
Standard Industrial Classification*	Banking, Finance and Insurance	52%	-19 ppts
	Public Admin. Education and Health	65%	-6 ppts
	Other Services	86%	15 ppts
Changes in standard of living within the past year*	Same	71%	0 ppts
	Decreased	81%	10 ppts
Length of self-employment*	Long term	85%	14 ppts
	Mid-term	35%	-36 ppts
Disability	Yes	58%	-13 ppts
	No	80%	9 ppts
Working hours	Full-time	60%	-11 ppts
	Part-time	83%	12 ppts

Base: 351 respondents. Some demographic subgroups have been omitted due to low sample size, denoted by an asterisk in the larger category

Admittedly, due to a large prevalence of low sample sizes because only those who have used the SEISS have been included in this breakdown, what we can say from polling evidence regarding the helpfulness of the SEISS specifically is limited. There are, however, some observations that we can make.

First, there appears to be an age pattern among users of the SEISS: self-employed people in low and middle income households aged 25-34 were less likely than average to view the SEISS as helpful, with a net helpfulness rating 12 percentage points below the overall average. The converse was true for people aged 35 and above; age groups above this threshold had a net helpfulness rating between seven and 15 points above the overall average. Those aged 45-54 were particularly likely to find the SEISS helpful. This age group had a net helpful rating for the scheme 15 percentage points above the overall average.

There was also a clear pattern with respect to education level, where those with a Level 2 or below qualification being less likely to view the SEISS as helpful while those with Level 3 or above qualifications having a net helpful rating above average. It is unclear why this is, but the large differences in net helpfulness ratings between Level 2 or below and Level 3 or above respondents – over 20 percentage points – indicate that self-employed people with lower qualification levels had some difficulties with the scheme.

Some regional variation was evident. London in particular stands out, with a net helpfulness rating 20 percentage points below the overall average and distinct from the ratings seen in other regions, such as the Midlands, North and South, which had net helpfulness ratings between three percentage points below and nine percentage points above the average.

Respondents in different economic sectors also had markedly different experiences of the SEISS. Admittedly, only three sectors had robust sample sizes for this question. But there were significant differences between them. Banking, Finance and Insurance had a net

helpfulness rating 19 percentage points below average and Public Administration, Education and Health had a rating six percentage points below average. Conversely, Other Services had a rating that was 15 percentage points more than the overall average.

Interestingly, those whose standard of living had decreased were in fact more likely to be favourable towards the SEISS, giving it a net helpfulness rating ten points above average.

Admittedly, we were unable to achieve a sufficient sample size for all groups by length of self-employment. But the difference between the reactions of long-term and mid-term self-employed people is still remarkable: whereas long-term self-employed people gave it a net helpfulness rating 14 points above average, mid-term self-employed people gave it a net helpfulness rating 36 points below average.

Other variations were evident by disability status – disabled self-employed people gave the SEISS a net helpfulness rating 13 points below average, in contrast to non-disabled self-employed people – and by working pattern, with full-time self-employed people having a much more critical reaction to the SEISS (13 points below average) than part-time self-employed people (12 points above average).

During our depth interviews, we explored in greater detail the perceptions and experiences of self-employed people in low and middle income households with the SEISS. Overall, support for the SEISS was highly qualified, with many respondents saying that, overall, the SEISS had been helpful, but being critical of certain aspects of the scheme when prompted.

The key complaints around the SEISS emerging from the interviews concerned the scheme's generosity, eligibility, accessibility and timeliness.

First, generosity. Some respondents criticised the amount of SEISS grants, in particular the fact that it was based on a proportion of net profits and did not have an absolute floor.

> "[My] income dropped, I'm on basic pension and SEISS which is not much … having to budget tightly."

Male, 65+, London, low income, long-term self-employed

> "[Self-employed people have] been treated badly by government … only allowed to claim 80% of income regardless of how low the income was."

Male, 45-54, London, middle income, long-term self-employed

> "It [the SEISS] is not done on gross, it is done on net profit … some people have not been given anything at all … self-employed people have not been treated with [the] respect they deserve"

Female, 55-64, Scotland, low income, long-term self-employed

> "Just [enough] to cover overheads as [it is] only 80% of profits."

Female, 25-34, South West, low income, mid-term self-employed

> "It [the SEISS] didn't make a significant difference but did help in a small way financially … for necessities"

Male, 65+, East Midlands, low income, long-term self-employed

There was even more criticism of the eligibility for the SEISS. A particular concern was the stark 'cliff-edges' present in the design of the scheme. As detailed in Chapter One, the SEISS had a £50,000 profits cap, above which no support was given. This meant that self-employed either received the full amount of support or none at all based on which side of the cut-off they were.

> “[My] son in law is self-employed, around 45% of [his] income, which all went in the pandemic due to zero demand and he didn't get any help from SEISS which was difficult.”
>
> **Female, 65+, North West, low income, long term self-employed**

> “Some people were supported well and some appallingly. For example, if my work had stopped I would not have been entitled to any help as I was only self-employed for a year and other people have been left with no income and that is not good enough.”
>
> **Female, 45-54, London, middle income, mid-term self-employed**

> “I haven't been able to get a penny as I haven't had three tax return years from SEISS. The help from government for self-employed workers has been very bad in comparison to the furlough scheme for employees as they didn't even have to claim for it, it was automatic.”
>
> **Male, 25-34, South West, middle income, mid-term self-employed**

> “The people who had the books and accounts to show were very well helped but for people like me with no books I got no help”
>
> **Female, 35-44, South West, middle income, recently self-employed**

Third, perceptions in interviews around the accessibility of the SEISS were mixed. Some interviewees did complain that the SEISS took a long time to arrive.

> "The time it takes to receive the loan and apply for loan was too long"

Male, 45-54, London, middle income, long term self-employed

> "Everything is late … we went [the] first summer with no income … [my] husband's grant was late"

Female, 25-34, South West, low income, mid-term self-employed

However, most interviewees who commented on this specific issue suggested the process for applying was simple.

> "They [HMRC] wrote to me … it was good … easy and predictable"

Male, 65+, South West, low income, long-term self-employed

> "They came to me [about SEISS grants] … I did not have to look and the fact that they offered was a good thing. They put a lot of thought into the ramifications of pandemic for self-employed people and included them in the work force … it gives you a sense of being acknowledged."

Male, 55-64, Yorkshire and the Humber, middle income, long-term self-employed

> "The process [of applying for the SEISS] was easy peasy lemon squeezy … it was two minutes and the money arrived in two days"

Female, 55-64, South East, middle income, long-term self-employed

> "HMRC told me I was eligible [for the SEISS] but didn't let [me] apply – made me feel angry … still am with them … HMRC is very complicated and not clear"

Male, 65+, South West, low income, long-term self-employed

> "[HMRC] said I couldn't have it as I changed my business … I was self-employed registered for less than a year when Covid came in so not eligible … [the application process was] very hard and difficult, found the forms difficult and repetitive and it took so long and they kept changing the rules … had to wait five months to tell me I was not eligible."

Female, 55-64, North West, low income, long-term self-employed

The Resolution Foundation criticised the SEISS for the 'cliff-edges' present in its design, echoing many of the comments and criticisms on the scheme from our fieldwork.[80] Although much of this criticism recognised the administrative difficulty in extending the SEISS to newly self-employed people, it argued that the complete exclusion of newly self-employed people from the early rounds of the SEISS, among other groups such as owner-managers, were hard to justify.

Universal Credit

Universal Credit was the most widely-used form of support among self-employed people in low and middle income households during the pandemic, as Chart 4.1 earlier showed. As with the SEISS, it was, on aggregate, seen as helpful – as illustrated in Chart 4.2 – but with underlying variation by demographic groups. This variation is summarised below in Table 4.4. As with Table 4.2, it shows the absolute

80. Mike Brewer, Karl Handscomb & Krishan Shah, "In need of support?", https://www.resolutionfoundation.org/app/uploads/2021/04/In-need-of-support.pdf (2021).

net helpfulness rating for each demographic group of self-employed individuals in low to middle income households and the difference in percentage points between the net helpfulness rating for that demographic group and the total sample.

Table 4.4. Perceptions of Universal Credit by demographic group

Demographic	Group	Net Helpful (Helpful – Unhelpful)	Net Helpful (relative)
Total		65%	0 ppts
Age*	18-24	29%	-36 ppts
	25-34	68%	3 ppts
	35-44	69%	4 ppts
	45-54	84%	19 ppts
Region*	London	62%	-3 ppts
	Midlands	75%	10 ppts
	North	66%	1 ppts
	South	56%	-9 ppts
Education	No qualifications / Level 1	64%	-1 ppts
	Level 2 / Apprenticeship / Other	55%	-10 ppts
	Level 3	70%	5 ppts
	Level 4+	76%	11 ppts
Household Income*	Below £20,000	67%	2 ppts
	£20,000 – £29,999	66%	1 ppts
	£30,000 – £39,999	53%	-12 ppts
	Below £35,000	65%	0 ppts
Length of self-employment	Long term	79%	14 ppts
	Mid-term	47%	-18 ppts
	Recent	63%	-2 ppts
Disability	Yes	57%	-8 ppts
	No	77%	12 ppts

Base: 402 respondents. Some demographic subgroups have been omitted due to low sample size, denoted by an asterisk in the larger category

Because only those who used Universal Credit have been included in this breakdown, caveats apply with regard to the findings as some demographic subgroups have had to be omitted due to a low sample size.

While Universal Credit was universally seen as helpful overall, this was the case for some groups more than others. Young people aged 18-24 had a net helpfulness rating for Universal Credit far below (36 percentage points below) the overall average, while those aged 45-54 saw Universal Credit as more helpful, with a net rating 19 percentage points above the average.

Individuals in different regions also had slightly different receptions of Universal Credit. For example, while those in the South gave UC a net helpfulness rating nine percentage points below the average, people in the Midlands gave it a net helpfulness rating ten percentage points above average.

There was a marked difference by certain education levels as well. Those educated to Level 2 saw UC less favourably than average, with the rating ten points below average. In contrast, self-employed people educated to Level 4 or above gave Universal Credit a net helpfulness rating that was 11 percentage points above the average.

In terms of household income, the story was broadly similar – and very close to the average – across income groups with the exception of those with household income between £30,000 and £39,999, who saw Universal Credit considerably less favourably. The net helpfulness rating for Universal Credit among this group was 12 percentage points below average.

There was a clear difference in perception of Universal Credit by length of self-employment. Recently self-employed people were more or less in line with the average, whereas mid-term self-employed people were the most critical of Universal Credit, giving it a net helpfulness rating no less than 18 percentage points below the average. Strikingly, long-term self-employed people had a reaction to Universal Credit that was well above the average: the net helpfulness rating among this group was 14 percentage points above average.

Disabled respondents had a lower than average net helpfulness rating for Universal Credit. This was 20 percentage points less than the rating for non-disabled respondents.

Admittedly, respondents did not discuss Universal Credit extensively in our interviews. However, interviewees were mostly positive.

> "Universal Credit has been the most helpful [form of support during the pandemic]"
>
> **Female, 25-34, West Midlands, low income, mid-term self-employed**

> "[I am] currently on Universal Credit … [it] made a difference during the pandemic, £20 a week is handy"
>
> **Male, 45-54, London, middle income, long-term self-employed**

> "I had to [use Universal Credit] as I had no income and couldn't get SEISS … [but] it helped with paying the rent and bills"
>
> **Female, 55-64, North West, low income, long-term self-employed**

However, a minority of respondents were critical of Universal Credit and felt that it was insufficient.

> "£200 over the course of the year … not as effective as [I] had hoped … [I] don't have time to fill out forms once a month and the amount was so low and didn't help all that much"
>
> **Female, 45-54, London, low income, long-term self-employed**

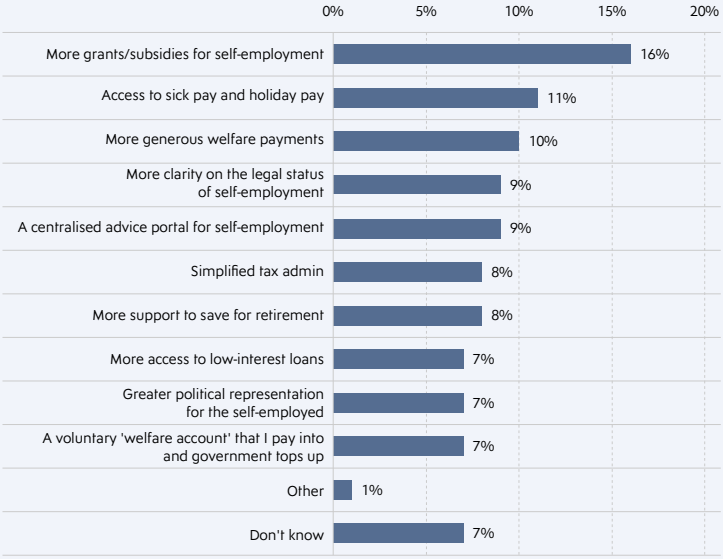
> "Wouldn't get [Universal Credit] … it is a crap benefit"
>
> **Female, 65+, North West, low income, long-term self-employed**

There is little secondary evidence specifically on the perceptions of self-employed people towards Universal Credit during COVID-19. However, we do know, as outlined in Chapter One, that COVID led to a sharp increase in the number of self-employed people claiming the benefit.[81]

Views on improving governmental support

As well as assessing current governmental financial support, in polling respondents were also asked to describe what reform they would most like to see prioritised by government in future. The results are shown in Chart 4.5 below.

Chart 4.5. Priorities for improving governmental support for self-employed people in the future



Base: 1,583 respondents

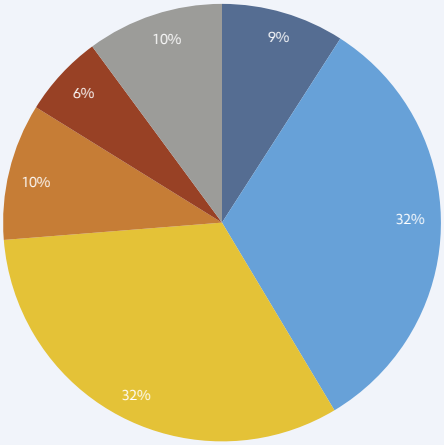
81. IPSE, "The self-employed landscape".

As Chart 4.5 above shows, there was a wide array of views on what the government should prioritise, with no clear consensus on a single policy option.

Broadly, it was evident that self-employed people see better financial support (grants/subsidies, support to save and access to low-interest loans) and a stronger welfare system (more generous payments, access to sick and holiday pay and a voluntary 'welfare account') as the main policy priorities, as opposed to advice or more political representation.

There was also no clear consensus on whether self-employed people should pay more tax in exchange for more state support, as Chart 4.6 below shows.

Chart 4.6. Views on whether self-employed people should pay more in tax in exchange for more state support



Yes – a lot more in taxes for a lot more support
Yes – a little more in taxes for a little more support
No – keep taxes and support the same
No – reduce taxes and level of support a little
No – reduce taxes and level of support a lot
Don't know

Base: 1,583 respondents

Overall, more self-employed people (48%) opposed tax rises for self-employed people. However, a significant minority (41%) were in favour of raising taxes on self-employed people in exchange for more state support.

In most demographic groups, more respondents were opposed to increasing taxes than supportive, with people in long-term self-employment, outside of London and Scotland, those working in distribution, hotels and restaurants and ethnic minorities particularly opposed.

Very few demographic groups were, on net, in favour of higher taxes on the self-employed, though there were some. These included people in London, the recently self-employed, those with a disability and those who had not seen a change to their standard of living during COVID-19.

Strikingly, this contrasts with the opinions given in our interviews, where support for higher taxes in exchange for more state support was much more widespread: around two thirds of interviewees indicated that they would be in favour of higher taxes in exchange for more state support, with the primary motivations behind this being to ensure better public services, and to produce a fairer society.

In our interviews, some respondents made an explicit link to tax as a potential way to fund a contribution-based, collective insurance scheme for self-employed people. However, the degree of optimism around how feasible this would be varied.

> "From a government point of view, they could maybe implement a pension scheme or holiday pay, but where would it come from – more taxes? Because I wouldn't be prepared to pay more taxes. The government don't see that productivity as a whole is going down and all they see is more national contributions coming in."
>
> **Male, 45-54, South East, low income, long-term self-employed**

> "[It would be good] to be able to make a claim on NI that we pay when there are times of no work or under exceptional circumstances such as being very sick and having surgery – can't get statutory sick pay and I would have to pay a lot for health insurance. Sickness insurance from government for self-employed people, could come from NI tax."

Female, 55-64, South East, middle income, long-term self-employed

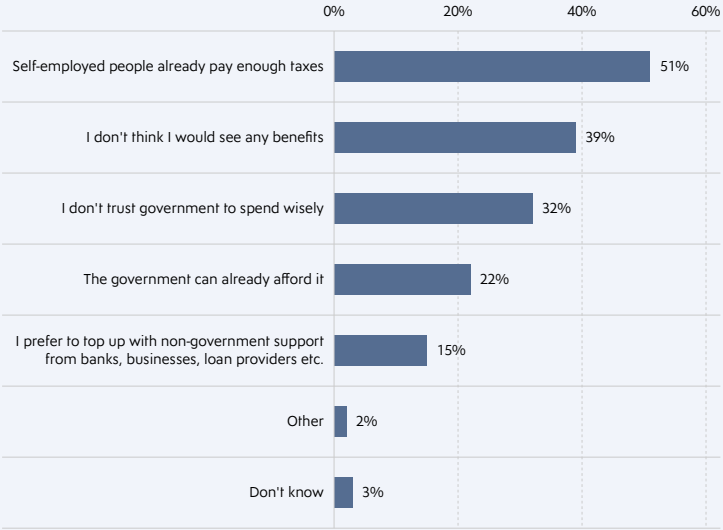
It is worth noting that, for many respondents, support for increased taxes on the self-employed was conditional on more transparent government spending.

> "I would be willing to pay more taxes if there was more clarity over my taxes and where money was going... I want to see government spend money on more sensible things."

Male, 55-64, North West, low income, long-term self-employed

Among those who opposed higher taxes there was a widespread sense that self-employed people already pay enough taxes. In polling, this was the most common reason in most demographic groups. Between 40 percentage points and 70 percentage points saying they opposed more taxes for this reason. Chart 4.7, below, illustrates the main reasons self-employed people in low and middle incomes gave for opposing higher taxes on self-employment.

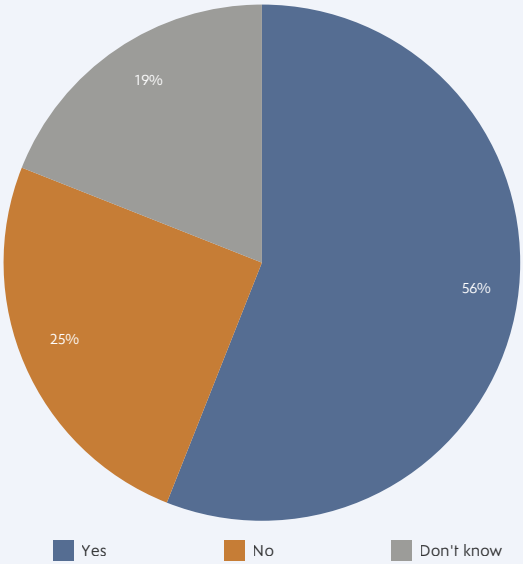
Chart 4.7. Reasons for opposing higher taxes on self-employed people in exchange for more state support



Base: 776 respondents who answered 'no' on whether self-employed people should pay higher taxes for more state support

It was noteworthy that a majority of self-employed respondents in our polling felt that employees and the self-employed should pay the same level of tax for the same benefits, as shown below in Chart 4.8. This view was held across all demographic groups in polling and expressed by more than half of interviewees in our depth interviews.

Chart 4.8. Views on whether self-employed people should pay the same as employees for the same level of state support



Base: 1,583 respondents

For some respondents in our depth interviews who were supportive of equivalent taxes on employees and the self-employed, this was a simple matter of fairness.

> "Everyone should contribute regardless of employment status – everyone should pay the same rate of tax if you are earning the same."
>
> **Male, 55-64, North West, low income, long-term self-employed**

> "I don't see why self-employed people should be privileged. Sick and holiday pay is not a privilege in my opinion, if an employee receives those it is fair exchange for their work. Government could pass legislation to pass on more help to self-employed people and [this] would be better for the economy."

Male, 55-64, East Midlands, low income, long-term self-employed

Some respondents were however more cautious in their support and emphasised that, while in principle they welcome the idea of equal taxes for equal support, issues around implementation made this idea unlikely in practice.

> "There's no way you could quantify that and … self-employed people also don't just want to work and have the weekend off, it's a different mentality and mindset"

Female, 55-64, South East, middle income, long-term self-employed

Other respondents, while agreeing that employees and the self-employed should pay the same tax for the same benefits, observed that the tax system already treated the two groups equitably in the sense that while self-employed people can offset expenses and pay lower tax, they miss out on sick and holiday pay and unemployment benefits.

> "We already do, I can offset expenses but do not get sick pay or holiday pay … so while you pay less tax you get less benefits … you still pay into a state pension and get all NHS care so you miss out unemployment benefits and sick and holiday pay only"

Male, 65+, East, low income, long-term self-employed

Conversely, a significant minority of respondents pushed back against the idea that employees and self-employed people should pay the same taxes. For the most part, this came down to a perception that self-employment is too fundamentally different from employment, in terms of the amount of risk taken on by an individual and the flow of income, to justify the same level of tax.

> "[Self-employed people] should not pay the same tax bill as incomes vary. It should remain the same as it is now, and pay a single bill at the end of the year as income varies."
>
> **Female, 45-54, London, low income, long-term self-employed**

In a similar vein, others voiced their concern that having the same tax level as employees would defeat the idea of being self-employed.

> "People who are self-employed should have a certain mindset and resilience, they do not get the same benefits and if they got the same benefits they would be employed. Self-employed people take the responsibility of self-employment and balance that with the freedom that being self-employed gives you."
>
> **Male, 65+, East Midlands, low income, long-term self-employed**

> "They [employees] don't have to worry about the same responsibilities, they don't have to employ an accountant etc. I don't believe it's the same benefits for each other."
>
> **Female, 25-34, West Midlands, low income, mid-term self-employed**

While on the whole self-employed people are highly sceptical about higher taxes, evidence from both polling and interviews suggests that,

first, a significant minority of self-employed people are in favour of higher taxes and, second, many self-employed people in low and middle income households are willing to get behind tax reform if government can make the case that it will be well spent and effective.

These findings are a slight departure from secondary evidence on the question of tax rises for the self-employed. Surveys from the LSE have found that, on average, self-employed people would be willing to sacrifice 10% of their current income in order to have a level of income protection of equivalent generosity to the SEISS.[82] Separate polling by Demos found that 63% of the public would back equalising the tax treatment of employees and the self-employed, though admittedly they did not poll self-employed people separately.[83]

Interestingly, compared to our polling, during interviews self-employed people put much more emphasis on advice and training as policy solutions after the pandemic: after financial support, advice was the second most mentioned theme among all interviews. Specifically, respondents suggested advice should be targeted at those considering or just starting out in self-employment, when they are at their "most vulnerable." As well as this, a common observation was that there should be more specialised advice on navigating the various forms of support available to self-employed people. As one respondent put it:

> "I think that the local network available for self-employed people should be better – we went to the local business hub and it wasn't very good as the person advising was not very useful with business help."
>
> **Female, 25-34, South West, low income, mid-term self-employed**

82. Robert Blackburn, Stephen Machin and Maria Ventura, "Covid-19 and the self-employed: a two year update", https://cep.lse.ac.uk/pubs/download/cepcovid-19-028.pdf (2022).
83. Ben Glover and Charles Seaford, "A people's budget: how the public would raise taxes", https://demos.co.uk/wp-content/uploads/2020/09/A-Peoples-Budget-Sept-2020-v5.pdf (2020).

> "[There should be] more training and workshops for workers who want to diversify into other things."
>
> **Male, 55-64, North West, low income, long-term self-employed**

Conclusion

Governmental support was used by a significant proportion of self-employed people in low and middle income households. Unsurprisingly, young people, ethnic minorities, disabled people and more recently self-employed people were more likely to use some form of governmental financial support. More interestingly, those whose living standards increased over the course of the pandemic or who were in higher income households were actually more likely than average to use certain forms of governmental financial support, chiefly CBILS and business grants.

On the whole, governmental financial support during the pandemic was seen positively. In every demographic group of self-employed people in low and middle income households, more people rated each form of governmental financial support as helpful than unhelpful. In some groups, however, this support was significantly weaker than average. Self-employed people aged 18-24 in low and middle income households were less receptive to Universal Credit, while those in mid-term self-employment had a lower rating for the SEISS.

In terms of changing governmental financial support for self-employed people in the future, our fieldwork found little consensus. The most popular option was more grants or subsidies for self-employment, followed closely by access to sick and holiday pay and more generous welfare payments.

Similarly, our polling showed that there is little consensus on the question of tax: the majority of our sample opposed higher taxes on the self-employed in exchange for more state support, but a significant minority supported such a move. In our depth interviews, the attitudes

of self-employed people in low and middle income households towards tax were more nuanced; many of the interviewees explained that, while they support higher taxes on the self-employed in principle, they would only be convinced by such reforms if it was clear where the revenue would go and how it would benefit self-employed people.

Chapter Five:
Non-governmental support for self-employed people during the pandemic

Government, of course, is not the only source of financial support. During the pandemic, self-employed people also relied on support from commercial and personal sources. This Chapter explores the experience that different types of self-employed people in low and middle incomes had in accessing and using commercial and personal forms of support during the pandemic.

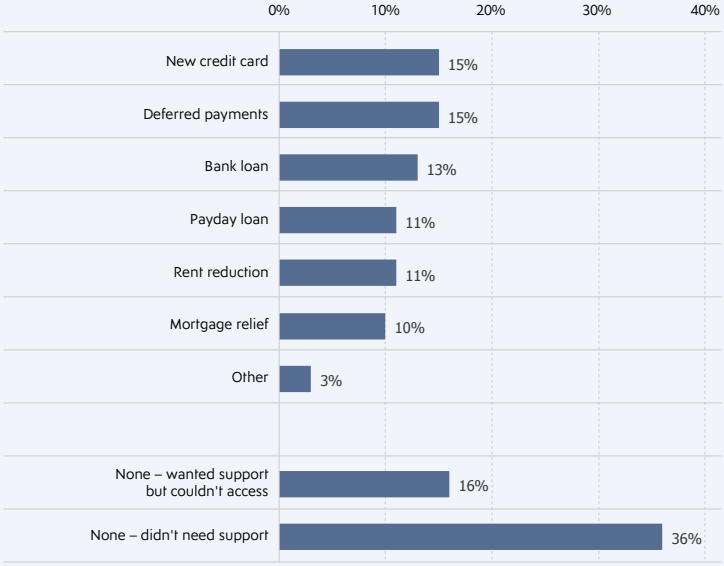
Commercial financial support

Our research found that self-employed people in low and middle income households relied on a range of sources of commercial financial support – such as new credit cards, deferred payments[84], bank and payday loans, rent reduction[85] and mortgage relief – to varying degrees.

Chart 5.1, below, details the extent of commercial financial support used. It appears that commercial financial support was less widely used than government financial support during the pandemic. 52% of respondents did not seek commercial financial support, compared to 39% of respondents who did not use any form of government financial support because they either didn't need it or could not access it, as detailed in Chart 4.1 above.

84. 'Deferred payments' for the purposes of our fieldwork refers to arrangements self-employed people made with suppliers to defer business payments. Admittedly, this polling option simply asked respondents whether they had the option of deferring payments to suppliers and did not refer specifically to FCA-mandated forbearance, which during COVID had to be provided almost automatically to an individual who requested it.
85. 'Rent reduction' refers to decreases in rent negotiated with landlords.

Chart 5.1. Use of commercial financial support by self-employed people in low and middle income households



Base: 1,583 respondents

Most self-employed people did not use commercial financial support. However, a significant minority (16%) did want some form of commercial financial support but were unable to access it. Among those that did use financial support, there was a relatively even split between differed forms of support used: excluding 'other' forms of support, the proportion of self-employed people using various forms of financial support ranged between 10 and 15%, with a new credit card (15%) and deferred payments (15%) the most commonly used forms of commercial financial support.

Admittedly, our fieldwork did not distinguish whether credit cards, payday loans, mortgage relief and bank loans were used for business or personal purposes. This does limit the extent to which we can analyse

different policy prescriptions, as different lending criteria apply and a different regulatory and consumer protection regime is in place depending on what the borrower declares.

Although evidence of usage of every form of commercial financial support is hard to come by, there is secondary evidence which suggests take-up of mortgage relief was more widespread than in our fieldwork. The Financial Conduct Authority estimates that around one in five (19%) of self-employed people requested a mortgage payment holiday, with an additional 21% saying that they were considering doing so at the time of the survey in October 2020.[86]

Table 5.1 below provides a breakdown of commercial financial support usage by demographic groups, highlighting the relative likelihood of a particular demographic group using that type of support.

86. Financial Conduct Authority, "Financial lives survey 2020".

Table 5.1. Relative likelihood of using commercial financial support by type of support and demographic group

Demographic	Group	New credit card	Deferred payments	Bank loan	Payday loan	Rent reduction	Mortgage relief	Other	Didn't need support
Total		0 ppts	0 ppts	0 ppts	0 ppts	0 ppts	0 ppts	0 ppts	0 ppts
Age	18-24	14 ppts	9 ppts	12 ppts	11 ppts	10 ppts	6 ppts	-3 ppts	-24 ppts
	25-34	6 ppts	5 ppts	10 ppts	9 ppts	7 ppts	7 ppts	-1 ppts	-14 ppts
	35-44	0 ppts	-2 ppts	-2 ppts	0 ppts	-1 ppts	-1 ppts	-2 ppts	-3 ppts
	45-54	-5 ppts	-4 ppts	-6 ppts	-6 ppts	-6 ppts	-3 ppts	5 ppts	9 ppts
	55-64	-11 ppts	-5 ppts	-11 ppts	-10 ppts	-8 ppts	-6 ppts	3 ppts	24 ppts
	65+	-11 ppts	-8 ppts	-13 ppts	-11 ppts	-11 ppts	-7 ppts	1 ppts	31 ppts
Region*	London	7 ppts	5 ppts	5 ppts	4 ppts	3 ppts	4 ppts	0 ppts	-11 ppts
	East of England	-1 ppts	-2 ppts	0 ppts	-3 ppts	0 ppts	-2 ppts	2 ppts	4 ppts
	Midlands	-4 ppts	-2 ppts	-4 ppts	0 ppts	-2 ppts	0 ppts	1 ppts	7 ppts
	North	2 ppts	3 ppts	0 ppts	1 ppts	-2 ppts	3 ppts	-2 ppts	-1 ppts
	South	-4 ppts	-2 ppts	-1 ppts	-2 ppts	0 ppts	-3 ppts	2 ppts	3 ppts
	Scotland	4 ppts	-4 ppts	1 ppts	-1 ppts	-1 ppts	-1 ppts	1 ppts	-3 ppts
	Wales	-3 ppts	-5 ppts	0 ppts	-2 ppts	1 ppts	-1 ppts	-2 ppts	6 ppts
Education	No qualifications / Level 1	4 ppts	2 ppts	4 ppts	5 ppts	4 ppts	2 ppts	-1 ppts	-7 ppts
	Level 2 / Apprenticeship / Other	3 ppts	2 ppts	2 ppts	3 ppts	1 ppts	4 ppts	0 ppts	-6 ppts
	Level 3	-5 ppts	-2 ppts	-2 ppts	-4 ppts	-6 ppts	-4 ppts	2 ppts	7 ppts
	Level 4+	-3 ppts	-2 ppts	-4 ppts	-4 ppts	-3 ppts	-1 ppts	1 ppts	7 ppts
Household Income	Below £20,000	-1 ppts	-2 ppts	-1 ppts	-2 ppts	-1 ppts	-2 ppts	1 ppts	2 ppts
	£20,000 – £29,999	1 ppts	2 ppts	2 ppts	3 ppts	1 ppts	2 ppts	0 ppts	-4 ppts
	£30,000 – £39,999	0 ppts	2 ppts	-1 ppts	2 ppts	-1 ppts	2 ppts	1 ppts	-3 ppts
	£40,000 – £49,999	11 ppts	4 ppts	7 ppts	3 ppts	9 ppts	7 ppts	-3 ppts	-1 ppts
Ethnicity*	White	-1 ppts	-2 ppts	-3 ppts	-3 ppts	-2 ppts	-1 ppts	1 ppts	5 ppts
	Asian	5 ppts	7 ppts	11 ppts	13 ppts	12 ppts	15 ppts	-2 ppts	-17 ppts
	Black	9 ppts	13 ppts	15 ppts	10 ppts	5 ppts	5 ppts	-3 ppts	-23 ppts
	Mixed	6 ppts	8 ppts	10 ppts	8 ppts	-2 ppts	4 ppts	-2 ppts	-15 ppts

Demographic	Group	New credit card	Deferred payments	Bank loan	Payday loan	Rent reduction	Mortgage relief	Other	Didn't need support
Standard Industrial Classification*	Agriculture And Fishing	9 ppts	10 ppts	12 ppts	14 ppts	8 ppts	12 ppts	-2 ppts	-20 ppts
	Banking, Finance and Insurance	5 ppts	4 ppts	7 ppts	6 ppts	7 ppts	4 ppts	0 ppts	-5 ppts
	Construction	-8 ppts	-3 ppts	4 ppts	1 ppts	-4 ppts	-4 ppts	0 ppts	0 ppts
	Distribution, Hotels and Restaurants	-6 ppts	-5 ppts	-6 ppts	-6 ppts	-6 ppts	-5 ppts	2 ppts	13 ppts
	Manufacturing	16 ppts	-6 ppts	7 ppts	7 ppts	4 ppts	3 ppts	-1 ppts	-12 ppts
	Public Admin. Education and Health	4 ppts	3 ppts	2 ppts	2 ppts	0 ppts	2 ppts	1 ppts	-6 ppts
	Transport And Communications	-6 ppts	0 ppts	-4 ppts	-3 ppts	-2 ppts	0 ppts	0 ppts	6 ppts
	Other Services	-6 ppts	-3 ppts	-7 ppts	-7 ppts	-5 ppts	-4 ppts	1 ppts	8 ppts
Changes in standard of living within the past year	Increased	10 ppts	9 ppts	15 ppts	15 ppts	12 ppts	10 ppts	-2 ppts	-20 ppts
	Same	-1 ppts	-3 ppts	-3 ppts	-3 ppts	-2 ppts	-1 ppts	-1 ppts	12 ppts
	Decreased	-2 ppts	0 ppts	-4 ppts	-3 ppts	-4 ppts	-3 ppts	3 ppts	-6 ppts
Length of self-employment	Long term	-5 ppts	-5 ppts	-8 ppts	-7 ppts	-7 ppts	-4 ppts	2 ppts	16 ppts
	Mid-term	7 ppts	5 ppts	10 ppts	11 ppts	7 ppts	5 ppts	-2 ppts	-18 ppts
	Recent	3 ppts	4 ppts	5 ppts	3 ppts	5 ppts	4 ppts	0 ppts	-13 ppts
Disability	Yes	9 ppts	6 ppts	10 ppts	6 ppts	6 ppts	7 ppts	0 ppts	-18 ppts
	No	-5 ppts	-3 ppts	-6 ppts	-3 ppts	-4 ppts	-3 ppts	1 ppts	11 ppts

Base: 1,583 respondents

There were several clear patterns that emerged with regard to use of commercial financial support among self-employed people in low to middle income households. First, younger self-employed people in low and middle income households were more likely to use some form of commercial financial support: those aged 18-24 were between six and 14 percentage points more likely than the average to use all forms of commercial financial support and 24 percentage points less

likely to say they didn't need such support. Conversely, those aged 65+ were between seven and 13 percentage points less likely to have used all the various forms of commercial financial support and 31 percentage points more likely than average to say they didn't need commercial financial support. The proportion saying they did not need commercial financial support rose steadily by age group.

Ethnic minorities were considerably more likely to use all forms of commercial financial support (with the exception of 'other' forms) than white respondents. While white respondents were slightly (5 percentage points) more likely than average to say they didn't need any form of commercial financial support, Asian, Black and Mixed respondents were, respectively, 17, 23 and 15 percentage points less likely to say they didn't need such support. Black self-employed people from low and middle income households were particularly likely to rely on deferred payments and bank loans, while Asian self-employed people from low and middle income households used a wide range of support but relied particularly on bank loans, payday loans, rent reduction and mortgage relief.

Those with lower levels of qualification (Level 2 or below) were more likely to use commercial financial support. Whereas this group were slightly more likely than average – by between one and five percentage points – to use a new credit card, deferred payments, bank loans, payday loans, rent reduction or mortgage relief, those with Level 3 or above qualifications were between one and six percentage points less likely than average to use these different forms of commercial financial support.

There was a marked difference in use of support by disability status. Disabled self-employed people from low and middle income households were consistently more likely than average to use a form of commercial financial support and 18 percentage points less likely to say they did not need any support of this nature. The converse was true for non-disabled self-employed people, who were less likely than average to use these forms of commercial financial support.

Interestingly, there was little evidence of a consistent pattern by income level: the proportion of respondents saying they didn't need commercial financial support was similar across income levels, with those in households earning below £20,000 two percentage points more likely than average to say they didn't need support and the highest income households we polled were one percentage point less likely than average to say so. However, this is partly driven by a lower proportion of the highest income households reporting that they wanted but were unable to access support.

Compared to other income groups, the highest income households were relatively more likely to use certain forms of commercial financial support including a new credit card (11 ppts above average), a bank loan (7 ppts above average), rent reductions (9 ppts above average) and mortgage relief (7 ppts above average).

There was, however, evidence that those whose living standards increased were considerably more likely than average to have used some form of commercial financial support. This group was between ten and 15 percentage points more likely to have used a form of commercial financial support, in contrast to those whose living standards stayed the same or decreased, who were slightly less likely to have used such support.

Those from certain regions were particularly likely to use commercial financial support. Self-employed people in London from low and middle income households were considerably more likely than those in other regions of the UK to use all the specific main forms of commercial financial support and were 11 percentage points less likely to say they didn't need support.

Looking at economic sectors, those in agriculture and fishing, banking, finance and insurance and manufacturing were the most relatively likely to use various forms of commercial financial support. Respondents in agriculture and fishing were between eight and 12 percentage points more likely than average to use all the main forms of commercial financial support. This figure was between four and

seven percentage points for banking, finance and insurance. Those in manufacturing were in fact less likely than average to use deferred payments (six percentage points below average), but more likely than average to use all other main forms of commercial financial support by between three and 16 percentage points.

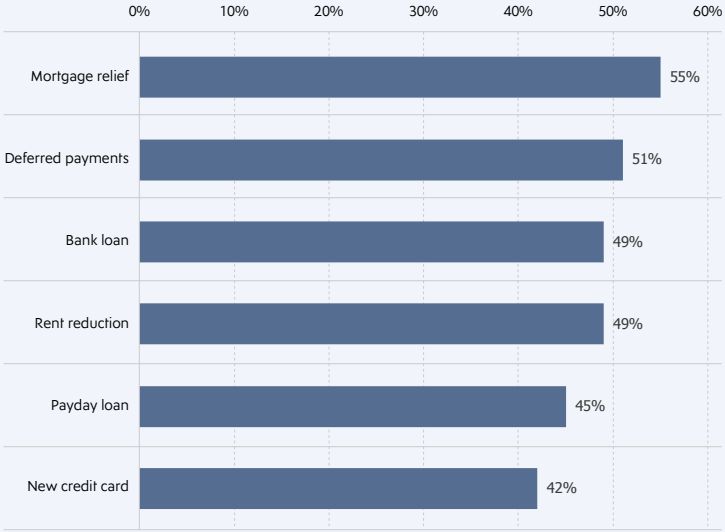
Finally, long-term self-employed people were between four and eight percentage points less likely to have used some form of commercial financial support, whereas among those in the mid term or recently self-employed groups, respondents were more likely than average to have used commercial financial support. This was particularly the case for those in the mid term group, who were 10 percentage points more likely than average to have used a bank loan, and 11 percentage points more likely to have used a payday loan.

Perceptions of commercial financial support

Perceptions of commercial financial support was broadly positive among self-employed in low and middle income households who used it.

Mortgage relief and deferred payments polled as the most net helpful at 55% and 51% respectively, compared to a new credit card which had the lowest net helpfulness at 42%. We calculated the 'net helpfulness rating' as the proportion of respondents who rated the support as 'very' or 'somewhat' helpful minus the proportion rating it as 'very' or 'somewhat' unhelpful.

Chart 5.2. Forms of commercial financial support by net helpfulness for self-employed in low and middle income households who used them



Base: Mortgage relief – 163 respondents; Deferred payments – 235 respondents; Bank loan – 206 respondents; Rent reduction – 168 respondents; Payday loan – 174 respondents; New credit card – 238 respondents

Admittedly, the sample sizes of self-employed people using the various forms of commercial financial support are lower than those for the main forms of governmental financial support (the SEISS and Universal Credit) and are therefore not suitable for detailed demographic breakdowns.

Overall, the various forms of commercial financial support had a slightly lower net helpfulness rating than major forms of governmental financial support, as shown in Chart 4.2 much earlier. The top three forms of governmental support were the SEISS (71%), Universal Credit (65%) and business grants (63%). These net helpfulness ratings are all higher than mortgage relief (55%), deferred payments (51%) and bank loans and rent reductions (49%), which were the top forms of commercial financial support in terms of net helpfulness rating.

In our interviews, respondents did not speak much about commercial financial support. Where they did mention it, they were generally factual about having used it and did not go into detail about how helpful it had been for them. Nonetheless, some respondents explained why they found the commercial financial support they received helpful.

> "[I received a] mortgage break from the bank for about three months, did help as I readjusted ... business credit card six months relief"
>
> **Male, 55-64, North West, low income, long term self-employed**

> "The mortgage holiday was good because they made it very simple. It was a five minute form and it increased the mortgage by a few pounds a month which isn't that noticeable i.e. two pounds a month"
>
> **Female, 35-44, South West, middle income, recently self-employed**

> "Flatmate provided support by reducing rent and [allowing] flexible rent payment. Very helpful and makes me feel better living with someone like that. Bank was also flexible with credit payback"
>
> **Male, 65+, South West, low income, long-term self-employed**

While commercial financial support was positively received by most self-employed people in low to middle income households, some very much turned to commercial financial support out of desperation and then struggled to make ends meet even with this support.

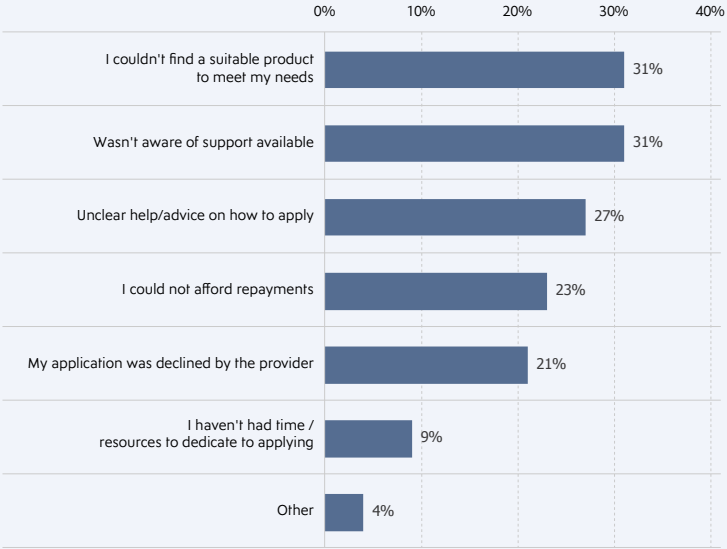
> "The most major [impact of the pandemic] was the financial strain. We had to remortgage. I've not had such long gaps in my working life. It became erratic at times – I had a panic attack in my early days"
>
> **Male, 45-54, South East, low income, long-term self-employed**

While on the whole, commercial financial support has been an important lifeline for self-employed people during the pandemic, broader evidence does sound a note of caution. The Money Advice Trust found that the average amount of debt accrued by self-employed people during 2020 was £3,444 per person. A significant proportion of self-employed people surveyed in December 2020 also expressed concern about their ability to repay common forms of commercial financial support: 17% said they would be unable to begin repayments on mortgage deferrals with the deferral period ended. This figure was higher, at 39%, for rent payment deferrals and deferrals on business credit and 32% for deferrals on personal credit and business rent payments.[87]

As aforementioned, a significant minority (16%) in our polling reported being unable to access commercial financial support, despite wanting it during the pandemic. Chart 5.3, below, illustrates the main reasons why some self-employed people in low to middle income households were unable to access commercial financial support.

87. Business Debtline and Money Advice Trust, "Back to business: supporting people in self-employment to bounce back from Covid-19", https://moneyadvicetrust.org/media/documents/Back_to_business_-_Supporting_people_in_self-employment_to_bounce_back_from_Co_YgRhrGV.pdf (2020).

Chart 5.3. Reasons for being unable to access commercial financial support



Base: 252 respondents who wanted some form of commercial financial support but reported being unable to access it

The two most common reasons why people could not access commercial financial support were because they could not find a suitable product to meet their needs (31%) and because they were not aware of support available (31%). This was followed by there being unclear help/advice on how to apply (27%), not being able to afford repayments (23%) and their application being declined by the provider (21%).

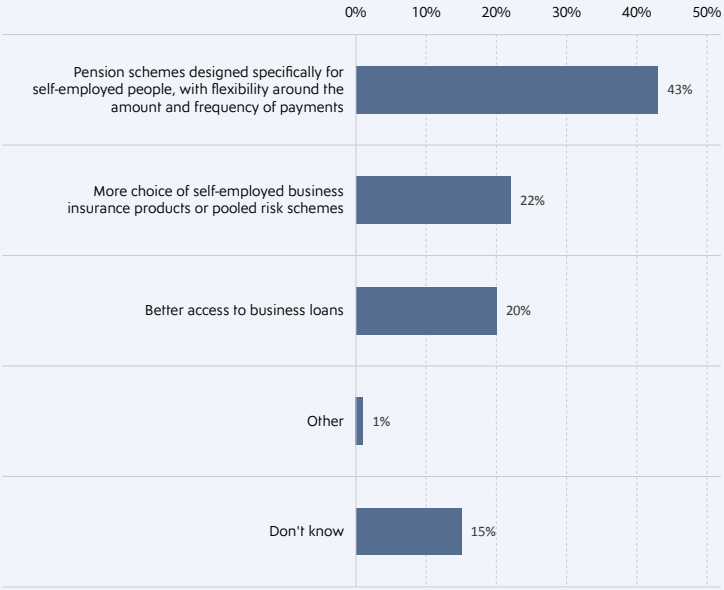
The most immediate observation is that self-employed people in low and middle income households were, for the most part, not stopped by the affordability or conditions of commercial financial support. Not being able to afford repayments, or having applications declined, were only the fourth and fifth most common reasons for being unable to access financial support, respectively. Rather, the main issues preventing self-employed people in low and middle income households who wanted commercial financial support

but were unable to access it were around a lack of products that could reach this market and a lack of awareness of what support was available.

Views on improving commercial financial support

By far the most popular option for improving commercial financial support was pension schemes tailored to self-employed people, with flexibility around the amount and frequency of payments. In all but a few demographic groups polled, this was – by a considerable margin – the most popular option, as illustrated below in Chart 5.4.

Chart 5.4. Priorities for improving commercial financial support



Base: 1,583 respondents

In total, just over four in ten (43%) of respondents specified this as the main priority area for improving commercial support for self-employed people, compared to around one in five choosing more choice of business

insurance products or better access to business loans, respectively.

Admittedly, there was little discussion in our interviews of specific products or measures that could improve commercial financial support for self-employed people, though some interviewees did share a sense that banks and other financial providers could do more to help self-employed people in low and middle income households.

> "I would have appreciated more financial help from banks … [especially] during these times when incomes curtailed"
>
> **Female, 55-64, Scotland, low income, long-term self-employed**

Interestingly, secondary evidence suggests that the most popular form of savings among the self-employed is not pension schemes but ISAs. A 2019 survey from Fidelity International, admittedly from before the pandemic, found that, among the roughly three in ten self-employed people actively saving for the future, 39% used an ISA, compared to just 27% using a private pension.

However, there is clear demand from self-employed people for better solutions to save for retirement. Roughly half (49%) of respondents in the Fidelity survey said that they would welcome regulations that introduced auto-enrolment.[88] Similarly, research from NESTA found that 56% of self-employed people like the idea of automatically diverting a portion of their income to saving for retirement.[89]

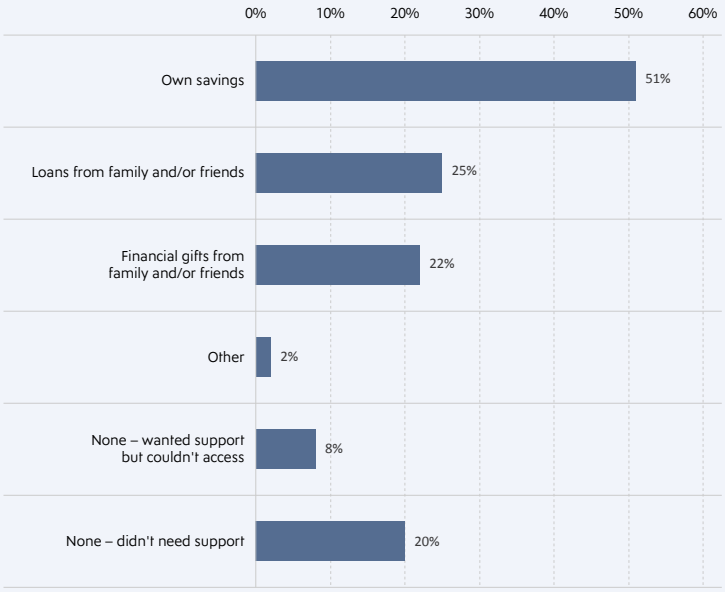
Personal financial support

Finally, after the state and market, there are personal sources of financial support, from individual savings to the contribution of family and friends. When it comes to personal financial support, a majority

88. Fidelity International, "Generation self-employed", https://www.fidelity.co.uk/self-employed/
89. Matthew Blakstad, Greg Bowe, Jo Phillips, Madeline Quinlan, Will Sandbrook, Gareth Turner. "Supporting self-employed people to save for retirement", https://www.nestinsight.org.uk/themencode-pdf-viewer/?file=https://www.nestinsight.org.uk/wp-content/uploads/2019/10/supporting-self-employed-people-save-for-retirement.pdf#zoom=page-fit (2019).

(51%) of self-employed people in low and middle income households relied on their savings as a form of personal financial support, followed by loans from family and friends (25%) and financial gifts from family and friends (22%), as shown in Chart 5.5 below.

Chart 5.5. Sources of personal financial support



Base: 1,583 respondents

With the exception of individual savings, which the majority of self-employed people on low to middle income households relied on during the pandemic, use of personal financial support was experienced by a significant minority. A quarter used loans from family and friends, while just over one in five (22%) relied on financial gifts from family and friends.

All the main forms of personal financial support were more widely used than the various forms of commercial financial support (between

10% and 15% of self-employed people in low and middle income households used these kinds of support, as illustrated in Chart 5.1 earlier). The proportion relying on loans or gifts was similar to the proportion of those using the Universal Credit (25%) and the SEISS (22%), as shown in Chart 4.1 in the last Chapter.

On the whole, use of savings was widespread across different demographic groups of self-employed people in low and middle income households, with relatively little variation. The extent of self-employed people using savings is in line with estimates from the Financial Conduct Authority, which found that 47% of self-employed people used their savings to cover day-to-day expenses, make loan repayments or pay their mortgage or rent between February and October 2020.[90]

Some notable variation in the use of financial loans and gifts from family and friends existed by age and ethnicity, as illustrated in Table 5.2 below.

90. Financial Conduct Authority, "Financial lives 2020 survey".

Table 5.2. Relative likelihood of using sources of personal financial support by demographic group

Demographic	Group	Own savings	Loans from family and/or friends	Financial gifts from family and/or friends	Other	None – wanted support but couldn't access	None – didn't need support
Total		0 ppts	0 ppts	0 ppts	0 ppts	0 ppts	0 ppts
Age	18-24	3 ppts	15 ppts	15 ppts	-2 ppts	1 ppts	-14 ppts
	25-34	-1 ppts	11 ppts	10 ppts	-1 ppts	0 ppts	-10 ppts
	35-44	-2 ppts	2 ppts	-1 ppts	-1 ppts	1 ppts	-2 ppts
	45-54	0 ppts	-5 ppts	-4 ppts	1 ppts	0 ppts	4 ppts
	55-64	5 ppts	-17 ppts	-12 ppts	1 ppts	-5 ppts	12 ppts
	65+	-13 ppts	-19 ppts	-19 ppts	2 ppts	-1 ppts	28 ppts
Ethnicity	White	0 ppts	-3 ppts	-2 ppts	0 ppts	-1 ppts	3 ppts
	Asian	-6 ppts	20 ppts	19 ppts	-1 ppts	-3 ppts	-14 ppts
	Black	1 ppts	9 ppts	7 ppts	0 ppts	7 ppts	-16 ppts
	Mixed	-1 ppts	8 ppts	5 ppts	-2 ppts	6 ppts	-16 ppts
Changes in standard of living within the past year	Increased	0 ppts	13 ppts	17 ppts	0 ppts	-5 ppts	-12 ppts
	Same	-5 ppts	-7 ppts	-4 ppts	0 ppts	-2 ppts	11 ppts
	Decreased	7 ppts	4 ppts	-1 ppts	0 ppts	3 ppts	-10 ppts
Length of self-employment	Long term	1 ppts	-8 ppts	-5 ppts	1 ppts	-1 ppts	7 ppts
	Mid-term	-5 ppts	10 ppts	5 ppts	-1 ppts	1 ppts	-9 ppts
	Recent	1 ppts	7 ppts	7 ppts	-1 ppts	0 ppts	-6 ppts
Disability	Yes	-3 ppts	9 ppts	8 ppts	1 ppts	2 ppts	-10 ppts
	No	2 ppts	-4 ppts	-3 ppts	-1 ppts	-2 ppts	5 ppts

Base: 1,583 respondents

Young people aged between 18-24 were particularly likely to rely on loans and gifts from family and friends: they were 15 percentage points more likely than average to use each of these types of personal financial support. Those aged 25-34 were also more likely than average to use loans and gifts from family and friends (11 percentage points and 10 percentage points above average, respectively). Older people were much less likely to use these forms of support: those aged 65+ were 19

percentage points less likely to use loans or gifts from family or friends and notably were 13 percentage points less likely to have dipped into their savings.

Ethnic minorities were, overall, more likely to use personal financial support in the form of loans and gifts from family and friends. This was particularly the case for Asian respondents, who were respectively 19 and 20 percentage points more likely than average to use loans and gifts from family and friends.

Interestingly, those whose living standards increased were more likely than average to have used some form of personal financial support, in particular financial loans and gifts from family and friends (13 percentage points and 17 percentage points more than average respectively).

Long-term self-employed respondents were slightly less likely than average to use personal financial support (eight percentage points less likely to use family loans and five percentage points less likely to use family gifts) and seven percentage points more likely to say they didn't need personal financial support.

Finally, there was a marked difference in usage of personal financial support by disability status. Disabled self-employed people in low and middle income households were nine percentage points more likely to have used a loan from family or friends and eight percentage points more likely than average to have used a financial gift from family or friends.

The impact of personal financial support was strongly positive for the majority of interviewees who discussed it. For some, the financial element of support was critical for getting them through the pandemic.

> "Flatmate provided support by reducing rent and flexible rent payment. Very helpful and makes me feel better living with someone like that."
>
> **Male, 65+, South West, low income, long term self-employed**

> "The loan from family [was the most helpful kind of support] … it took a lot of the stress out"

Male, 45-54, South East, low income, long term self-employed

> "Having my partner's financial and emotional support … [I] feel I would not have got through [the] pandemic at all without him"

Female, 55-64, South East, middle income, long term self-employed

Others emphasised the impact of support from family and friends on their mental and emotional health:

> "Emotional support from flatmate [was the most useful support]. [We] help each other through anxieties … helps me with family problems."

Male, 65+, South West, low income, long term self-employed

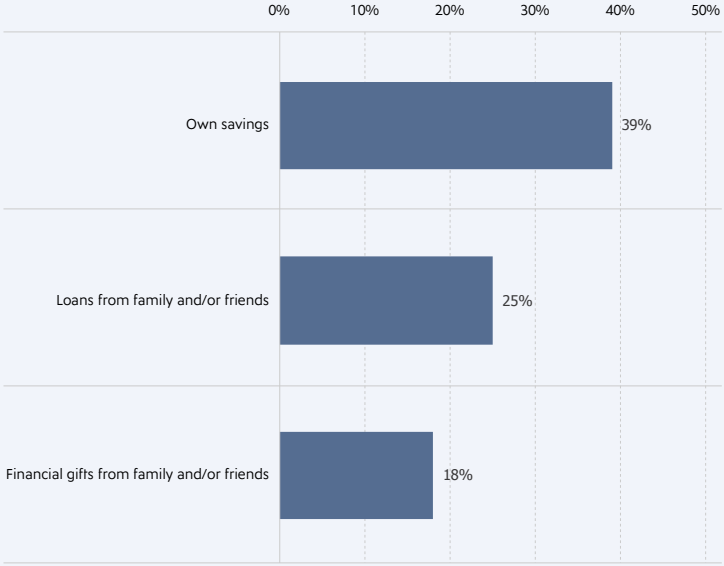
> "If we didn't have the support bubble we don't know how we would have survived a massive [hit] to our mental health"

Female, 25-34, South West, low income, mid term self-employed

Perceptions of personal financial support

When it came to how helpful personal financial support was among those that used it, savings were seen the most favourably and had a 38% net helpfulness rating, followed by loans from family and friends (25%) and financial gifts from family and friends (18%). This is displayed below in Chart 5.6.

Chart 5.6. Net helpfulness of sources of personal financial support among those who used them

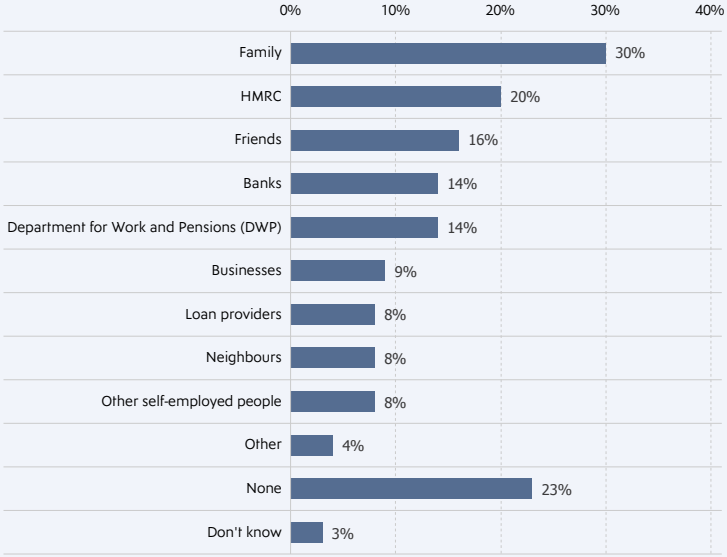


Base: 'Own savings' – 803 respondents; 'Loans' – 400 respondents; 'Gifts' – 356 respondents

This is less than the net helpfulness ratings for government or commercial financial support and primarily reflects a large proportion of respondents answering 'don't know' when asked about how helpful these sources of support were (38% of people said 'don't know' for the helpfulness of savings, with the equivalent figures being 59% and 69% for loans and gifts from family and friends).

However, self-employed people regard personal financial support as the form of support that they relied on the most during the pandemic. Chart 5.7 below shows which sources of financial support respondents felt they relied on most during the pandemic. By some margin, the most common answer was family at 30%, though 20% of respondents said that they had relied extensively on HMRC.

Chart 5.7. Most relied on financial sources of support during the pandemic



Base: 1,583 respondents

In our interviews, several self-employed people in low and middle households saw support from family and friends as the most important kind of support they received. For some respondents, it emerged that family support not only assuaged people's financial situation, it also had a positive emotional and mental health impact too.

> "The most useful support was the loan we received from our parents because it took a lot of the stress out and kept it at bay"
>
> **Male, 45-54, South East, low income, recently self-employed**

> "Parents have helped financially. When they help with childcare and groceries, they are making sure that we have them as a safety net"
>
> **Female, 25-34, South West, low income, mid-term self-employed**

Conclusion

During the pandemic, self-employed people in low to middle income households relied on three main types of financial support: governmental, commercial and personal.

By some margin, the most commonly used form of financial support was personal; individual savings, which the majority of self-employed in low and middle income households had to use. Other widespread forms of support – which were used by between one in five and one in four self-employed people in low and middle income households – included the main forms of governmental support, the SEISS and Universal Credit and personal loans or financial gifts from family and friends. Interestingly, usage of commercial financial support was the least common of these three main kinds.

Our fieldwork revealed that, among people who used it, governmental support was seen as the most helpful, followed by commercial financial support and then personal financial support.

There was also variation in both usage and perception of different forms of non-government financial support by demographic group. Young people aged 18-34, ethnic minorities, respondents in London, recently self-employed people and those whose living standards increased were particularly likely to have used some form of commercial financial support over the course of the pandemic.

Commercial financial support was viewed positively by those who used it. For each main form of commercial financial support, more people rated it as helpful than unhelpful, although the low sample

sizes preclude a detailed analysis of how different demographic groups of self-employed people in low and middle income households rated each form of commercial financial support.

A significant proportion, however, wanted but were unable to access commercial financial support. The key barriers to accessing commercial financial support were an inability to find a suitable financial product and lacking awareness of what commercial financial support was available.

When it comes to personal financial support, similar patterns of usage emerged with young people aged 18-34, ethnic minorities, more recently self-employed people and disabled people all more likely than average to rely on personal financial support. Surprisingly, though, those whose living standards increased were among the groups that were more likely to have used a form of personal financial support during the pandemic.

As with other forms of support, personal financial support was seen as helpful by those who used it. But the net helpfulness ratings for these kinds of support were notably lower than those given for commercial and governmental sources of financial support.

In designing new policies, it is important to understand what groups to prioritise for support. Figure 5.1, below, categorises a selection of different demographic groups of self-employed people in low and middle income households in terms of how much support they used over the course of the pandemic and the extent to which they were affected. When considering the impact of COVID-19, this analysis mainly takes into account the economic impact, in terms of how likely that group was to report a decrease in living standards and occupational changes such as changes to type of work and working hours.

Admittedly, some of the largest variations were in certain demographic groups such as sector or region. But due to the large number of subgroups in these categories, these variations are difficult to present graphically.

Figure 5.1. Overview of impacts and needs of different demographic groups of self-employed people in low and middle income households

Overall, lower income households – who both used more support during COVID-19 and underwent predominantly negative impacts – should be a priority in any new policy interventions to help the self-employed.

Our fieldwork also revealed that young people, disabled people, ethnic minorities and those in recent or mid-term self-employment were more likely to use support during the pandemic, although the impacts that the pandemic had on these groups is more nuanced: for some of these groups, living standards were more likely than average to increase rather than decrease.

Finally, there are some groups – such as older self-employed people in low and middle income households and those in long term self-employment – that were less likely to use the various forms of financial support over the course of the pandemic, but bore predominantly negative impacts from the pandemic. There is more public policy can do to ensure that support reaches such groups in future.

The next chapter draws on the evidence from earlier in the report and proposes original policies to better help self-employed people through future national and personal crises.

Chapter Six:
New policies

The pandemic had profound financial, occupational, social and psychological impacts on self-employed people in low and middle income households. Support available, from governmental, commercial and personal sources, for self-employed people in low and middle-income households was extensive but with significant problems, as the last two chapters unearthed.

Of course, the pandemic was an unprecedented event. But it has shown that there is still more to do to strengthen support for self-employed people when faced with individual or national crises. This chapter sets out original and credible policy recommendations to better support self-employed people through such crises in future, guided by five key principles.

- **Rewards flexible saving.** The self-employed need to save more, especially for the long term. But they also need reassurance that they will be able to access their savings during an emergency. Any policy intervention to boost savings among the self-employed needs to recognise this and offer flexibility.
- **Widens financial choice.** As our fieldwork showed, self-employed people are often constrained in their financial choices by a lack of products, a lack of information, or both. Policy should look to diversify the financial products available to self-employed people and improve awareness among the self-employed of different financial products.

- **Strengthens the safety net.** The lack of sick pay and protection against events such as illness was a common theme in our fieldwork. Although support for new tax-funded benefits is lacking, public policy needs to better protect the self-employed during individual and national crises. In particular, biases against self-employment currently present in the welfare system should be removed where possible.
- **Provides targeted support.** New policies should take into consideration the way that different groups of self-employed people were impacted during the pandemic and the extent they had to rely on support to manage. In particular, lower-income households should be a priority for new measures to help the self-employed. There also needs to be more attention paid to groups who were adversely affected by COVID-19 but used less support than average, such as self-employed people aged 45 and over and long-term self-employed.
- **Is fiscally responsible.** Considering the strain the public finances are currently under, proposed policies should not be too costly for government.

The first three of these principles can be thought of as distinct objectives that different policies should aim for. As such, this chapter's policy recommendations are grouped into these principles. The last two – targeted support and fiscal responsibility – are elements that should inform the overall approach for helping self-employed people through future individual and national crises.

Rewarding flexible saving

Recommendation one: Introduce auto-enrolment for the self-employed for savings for both predictable (retirement) and unpredictable (financial hardship) events. The overall contribution rate should be lower than for employees, starting

at 1% of qualifying earnings before rising to 4% after four years. The self-employed should pay annually through their tax return, or quarterly through Making Tax Digital. Above and beyond such contributions being tax-free, low-income self-employed should receive a top-up from the state for their contributions.

Low saving rates among the self-employed is a significant long-term challenge both for self-employed individuals and the state. To address this, government should extend private pension auto-enrolment to the self-employed to drive up savings and emulate the policy's success among employees.[91] There are ways to do this in the absence of an employer. Self-employed people could be required to choose a pension provider when filing their annual tax returns and have contributions added to their tax bill.[92]

However, this extension of auto-enrolment should be better tailored to self-employed people. We propose three main alterations to the design of auto-enrolment to make it better suit self-employed people: a lower contribution rate; the ability to save half of these contributions into a more flexible savings vehicle; and government matching the contributions of low-income self-employed people to boost savings.

First, the overall contribution rate should initially be lower than the minimum 8% specified for both employees and employers. Rather, the self-employed contribution rate should match the typical employee contribution rate. When taking into account tax relief, the average employee who is auto-enrolled pays in 4%.

To limit the immediate impact on self-employed people's finances, particularly given the current economic backdrop, this could be phased in gradually. Contributions could start at 1%, with the rate increasing by

91. Ryan Shorthouse, Andrew Harrop and Sam Robinson, "Framing the future: a new pensions commission", https://www.brightblue.org.uk/portfolio/framing-the-future-a-new-pensions-commission/ (2020).
92. Aviva and Royal London, "Solving the under-saving problem among the self-employed", https://www.royallondon.com/siteassets/site-docs/media-centre/avivaroyallondon-report-30jun17.pdf (2017).

one percentage point per year to eventually match the current average employee contribution rate.

Contributions should be calculated based on annual qualifying earnings – that is, trading profits between the minimum auto-enrolment trigger threshold for employees, which currently stands at £10,000, and the upper threshold of £50,270. These contributions could be calculated and made annually. However, with the roll-out of Making Tax Digital, the calculation period could in time be updated to quarterly intervals.

Second, self-employed people going on auto-enrolment should have the option to place up to half of their auto-enrolment contributions into an ISA instead. Self-employed people would have the choice on whether to save into an instant-access, restricted-access or investment ISA, or fully into their chosen pension provider. For example, if a self-employed person was auto-enrolled and had a total contribution rate of 4%, they could put 2% directly into their pension pot and 2% into an ISA.

Self-employed people would receive tax relief as normal on all their contributions as well as the tax wrapper benefits of an ISA, which would protect their savings pot from Income Tax on interest or dividends and Capital Gains Tax.

This alteration to the design of auto-enrolment is intended to make the scheme more akin to a 'sidecar model' whereby an instant-access savings account is tied to a pension pot, with surplus savings going into a pension pot. While this proposal does not work in entirely the same way – contributions to the savings account and pension pot are made in parallel, rather than pension contributions starting after a surplus is achieved in the savings account – it aims to achieve the same goal of giving self-employed people the flexibility to build up a 'rainy day fund' to address their short- and long-term financial needs.

Third, a targeted approach to help financially vulnerable self-employed people is savings top-ups, where contributions are matched by government.

Based on similar programmes that the government operates to

facilitate saving among low-income households, including Help to Buy[93] and Help to Save[94], a matching rate of 25% could be an eventual goal.

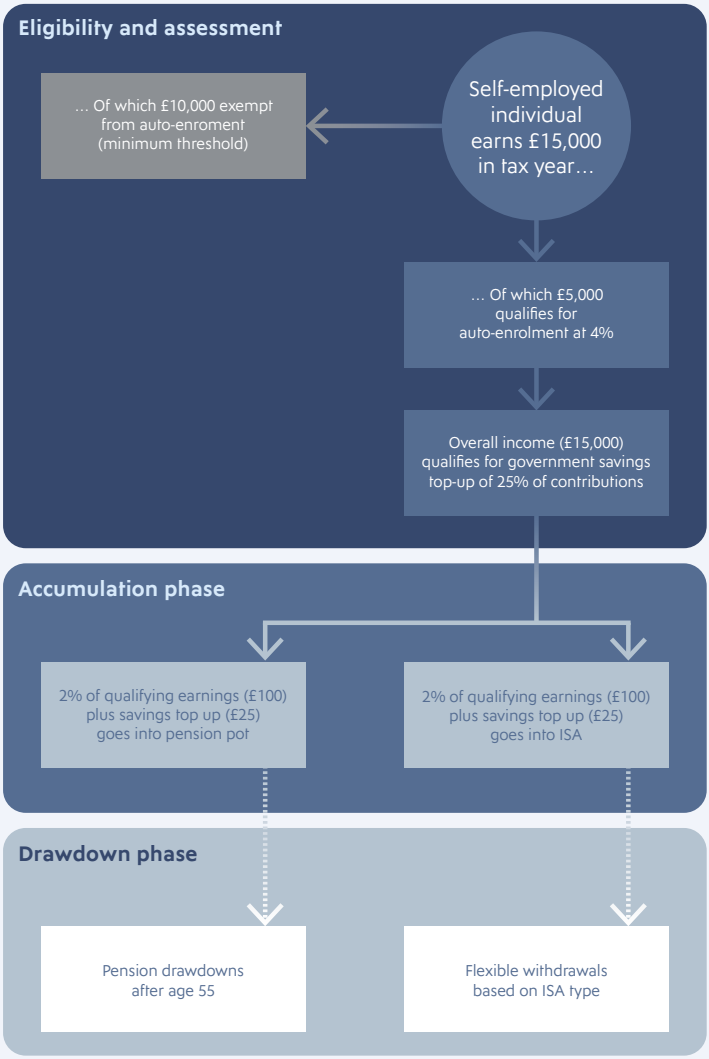
Annual tax returns could be used to determine eligibility, with self-employed people whose income falls above the minimum auto-enrolment threshold of £10,000, but under a higher threshold that reflects a low level of income, receiving savings top-ups on their auto-enrolment contributions until their income went back above this income threshold. Alternatively, eligibility could be triggered by UC status. Though less precise, receipt of UC could act as a simple administrative flag for savings top-ups on auto-enrolment contributions.

There are several ways the Treasury could limit the costs of this policy if this was necessary. One is through the definition of 'low-income' self-employed people it sets, which will dictate the number of people who are eligible for savings top ups on their auto-enrolment contributions. It could specify a cap on the cumulative total each self-employed person could receive in savings top-ups. Alternatively, savings top-ups could be time-limited, for example only applying for two years.

Figure 6.1 below illustrates what would happen under this proposal – once it is fully rolled out and contributions have risen to 4% – if a low-income self-employed person earned £15,000 over the course of the tax year and chose to split their auto-enrolment contributions evenly between their pension pot and an ISA.

93. GOV.UK, "Help to buy: equity loan", https://www.gov.uk/help-to-buy-equity-loan (2022).
94. GOV.UK, "Get help with savings if you're on a low income (Help to Save)", https://www.gov.uk/get-help-savings-low-income (2022).

Figure 6.1. Illustration of auto-enrolment for a low-income self-employed person earning £15,000 per year splitting contributions evenly between pension pot and ISA with 25% contributions top-up



The way these auto-enrolment contributions interact with UC should also be considered. Currently, employees claiming UC can deduct 100% of their pension contributions, with benefits calculated on the resulting net income figure. Self-employed claimants can also deduct pension contributions in this way, but do not see any benefit if the pension contributions reduce their income below the MIF. This acts as an obvious disincentive for low-income self-employed people to save for the long term.

Top-ups to UC should be made where a self-employed person's auto-enrolment contributions take them below the MIF threshold. In a similar vein, if interest payments on business loans take someone below the MIF, this should be accounted for in UC calculations, as described later in this chapter.

The goal of these measures is to ensure that, while the MIF is kept in place to reflect its role in disincentivising fraud, it does not unduly punish self-employed people who are saving for their future.

Strengthening the safety net

Recommendation two: Introduce 'Business Crisis Loans' (BCLs) for self-employed people eligible for UC who experience a week or more of illness, late business payments, or an urgent one-off expense. Claimants would pay the loan back over time, with generous repayment terms including interest-free repayments for the first six months.

The Bounce Back Loan Scheme (BBLS) was, in part, designed to provide financial support to businesses who were losing revenue, and seeing their cashflow disrupted, as a result of the pandemic. Lenders taking part in the scheme could provide a six-year loan from £2,000 up to 25% of a business' turnover up to a maximum of £50,000. The loan also provided a government-backed guarantee for the lender against the outstanding balance (both capital and interest).

Although the BBLS was wound up after March 2021, government could consider introducing an adapted version of Bounce Back Loans

specifically for self-employed people who are eligible for Universal Credit. These 'Business Crisis Loans' (BCLs) would be more limited in scope than both the Bounce Back Loans that preceded them and the Start-Up Loans (SULs) that provide low interest loans to new businesses and self-employed people.

The reasons for restricting BCLs to self-employed people who are eligible for UC is twofold. First, UC acts as a useful administrative flag: it already has caps on income and savings, so this would ensure that BCLs are going to self-employed people on low income who lack savings to cover unexpected expenses. Second, cross-referencing for UC eligibility has a role to play in preventing fraud. One of the main criticisms of the BBLS was that it did not do enough to prevent fraudulent claims, so it is important that any form of successor scheme has mechanisms in place to minimise it.

BCLs would apply where there is an unexpected and unforeseeable disruption to a self-employed person's business. There would be three main circumstances where a self-employed individual could claim a BCL. As with the BBLS, the government would underwrite these loans to reduce risk to lenders.

First, a period of sickness lasting at least one full working week. In this case, the BCL would operate as a form of sick pay for self-employed people. The amount would be capped at the equivalent amount for Statutory Sick Pay for employees, which is £99.35 per week up to a maximum of 28 weeks. As with SSP, evidence of sickness would need to be provided in the form of a written note from a GP, nurse, occupational therapist, pharmacist or physiotherapist. Unlike SSP, the claimant would be able to request less than the default SSP amount if they wanted to.

Second, late business payments. Other organisations such as IPSE have already called for more action on late payments, for example through increasing the power of the Small Business Commissioner to issue fines and 'name and shame' late payers.[95] In the long term, these

95. IPSE, "Pay up: how to end late payment for the self-employed", https://www.ipse.co.uk/policy/ipse-campaign-hub/late-payment/pay-up-how-to-end-late-payment.html (2020).

are practical and necessary steps to addressing late payment issues for self-employed people.

A more immediate intervention to help low-income self-employed people is to use BCLs to help cover the financial impact of late payments in the interim. Self-employed people would be able to claim this class of BCLs upon presenting evidence of outstanding payment (past a threshold, for example 20 or more business days late) for an invoice.

Admittedly, this will not solve the issue of late business payments. Rather, it aims to address acute financial vulnerability among low-income self-employed people in the interim: improving the culture of business payments is likely to take years, whereas low income self-employed people need money quickly. The fact that it is targeted at a specific group of people, and clients may not know that the self-employed person is eligible for UC, means that the risk of the policy incentivising late payments is unlikely to be substantial.

Third, an unexpected and significant one-off business expense – for example, the breakdown of a van that is vital to continue trading. Here the self-employed person would have to demonstrate that this expense was important to the functioning of their business and a genuinely one-off event.

Claimants would, over time, have to pay the BCL back. The specific repayment terms should be subject to review, but government could allow repayments to be interest-free for a certain period, for example the first six months after claiming, after which interest would accrue on the loan.

To disincentivise non-payment and fraud, there should be a maximum repayment period after which HMRC would be entitled to take the outstanding repayment directly from tax returns, although this should be a last resort after consultations between the claimant, loan provider and, where relevant, a Work Coach to try and establish a repayment plan. This maximum repayment period should be generous. But there should be a clear principle that after a certain period of time the money claimed for the BCL will be recouped.

Box 6.1. Business Crisis Loands (BCL) and UC

It is worth addressing how BCLs would interact with Universal Credit (UC). Admittedly, if a business crisis such as illness does hit, one would expect the self-employed individual's UC award to go up as a result.

However, due to the nature of the MIF, as explained in detail in Chapter One, in many cases a self-employed person is not fully compensated by UC for the hit to their income. These loans are designed as a smoothing mechanism to bridge that gap, while still leaving the responsibility to pay to the self-employed individual. The existing advances/deductions framework from UC could be used to administer the loans as a way of speeding delivery and maintaining accurate data on claims.

Given the nature of crises that trigger BCLs – a week or more off work, as well as a large and necessary business expense or unpaid invoice of similar scale, it is in any case likely in these circumstances that the MIF would be reached and surpassed. And the eligibility for BCLs could be adjusted, through specifying a minimum period off work or a minimum hit to income, in such a way as to make it extremely likely that, if the individual is claiming a BCL, they will have triggered the MIF rule.

Finally, even if there is some limited overlap between BCLs and increases to UC awards, this is still not conceptually a 'double payment': the self-employed individual will, over time, have to pay the BCL back. Increases to UC awards is a grant, but BCLs are a loan and an income smoothing mechanism.

Ultimately, BCLs are a way of extending microfinance to low-income self-employed people who need it to sustain their business and avoid a deterioration in their financial situation.

Besides the obvious benefit to the individuals receiving them, BCLs could help to improve a self-employed person's credit rating. Admittedly, firms tend to be wary of novel products, so it is not clear that BCLs

would have a substantial impact on creditworthiness – although they may help to some extent. But over the long term, the policy could help to expand and deepen private and third sector provision of microfinance for low-income self-employed people.

Ultimately, if government wanted to go further, it could even raise National Insurance Contributions on self-employed people in order to fund Statutory Sick Pay for this group and bring the benefits of self-employed people into line with those of employees. But, in the absence of widespread political support among the self-employed for higher taxes as illustrated in Chapter Four earlier, a limited programme of BCLs would be less costly to the Treasury and avoid the need to raise taxes on self-employed people, while still addressing one of the major gaps in support for self-employed people.

Recommendation three: Financial incentives from central government for LEPs to set up local community peer-to-peer finance networks for the self-employed.

Bright Blue has previously recommended that central government funding for Local Enterprise Partnerships (LEPs) should, in part, be contingent on them developing advice networks for self-employed individuals and business owners and demonstrating that these advice networks will benefit low-income self-employed people.[96]

To go further, the Government could extend this proposal to include financial bonuses to LEPs who set up local, community-based, peer-to-peer finance networks for the self-employed. These kinds of networks exist in Europe, particularly the Netherlands, in the form of 'bread funds' ('*broodfonds*' in Dutch).

Typically, these funds are small-scale and focused on providing a form of sickness insurance to self-employed individuals who would not normally be able to access sick pay. The goal of bread funds is to provide a form of personal insurance, rather than to secure better

96. David Kirkby, "Standing alone?"

business lending terms for self-employed people, as other schemes such as Mutual Guarantee Societies (described in detail below) aim to do. Box 6.2, below, explains the concept of bread funds in more detail.

Box 6.2. What are 'bread funds'?

A bread fund is a voluntary collective of self-employed people, usually comprising between 20 and 50 individuals. In essence, it functions as a form of insurance: in the event of illness, the person who is ill receives numerous small payments from the accounts of all bread fund members, providing replacement income.

The key benefit of a bread fund to its participants is that it is less costly than the alternative of private health insurance. In the Netherlands, participation in a bread fund costs between 33 and 112 euros per month, in contrast to public or private insurance which is typically over 200 euros per month, with some premiums even going over 600 euros a month.[97]

Whereas insurance often comes with exclusionary conditions, for example preventing those with prior conditions from accessing insurance or charging them a higher premium, bread funds largely do not impose such conditions. Contributions in a bread fund do not vary by age or status. Additionally, bread funds often provide practical support from other members in addition to a purely financial function.

Payouts are determined by need and the monthly contribution that a member makes: a higher monthly contribution results in a higher pay-out in the event of illness. The money does not go into a central pot. Each member has their own individual bread fund account, meaning that should they decide to leave the bread fund they can take their share with them.

97. Adriaan Ostveen, "Netherlands: Social protection for the self-employed through 'bread funds'", file:///C:/Users/brigh/Downloads/ESPN%20-%20Flash%20Report%202018%20-%2004%20-%20NL%20-%20February%202018-4.pdf (2018); Stuart Field, "Bread Funds: A pioneering model of self-organising among the self-employed", https://www.thersa.org/blog/2017/04/bread-funds-a-pioneering-model-of-self-organising-among-the-self-employed (2017).

In theory, anyone can start a bread fund. However, in the Netherlands there is a dedicated organisation – *De BroodfondsMakers* – that advises people on how to set up a bread fund and manages some of the administration.

Initially, there were concerns around the possibility of individual bread funds being unable to honour payments because of a lack of funds. This has occurred, albeit not very often. In response, the 'Bread Fund Alliance' was set up, in which if one fund ran out of money it could be supported by other funds in order to facilitate the payment. Over 150 funds in the Netherlands have joined the Alliance.[98]

Despite being a recent innovation, the idea has gained traction in the Netherlands: the first bread fund was created in 2006, but by 2017 there were 304 bread funds.[99]

Admittedly, there are some regulatory problems around setting up a bread fund in the UK that need to be addressed. In previous attempts to start bread funds in the UK, there have been delays of several months in setting up a bank account. In part, this was due to the way the UK interprets EU banking legislation, which is stricter than in the Netherlands.[100]

More seriously, bread funds in the UK cannot promise to refund unused funds to members when they leave, again due to the way the UK interprets banking legislation. This removes much of the flexibility that makes bread funds in the Netherlands an appealing model.[101]

Finally, the relatively vague legal position of self-employment in the UK makes ensuring that bread funds serve specifically self-employed people more challenging.

LEPs, with their convening role for local businesses and traders together with their local knowledge, would be well-placed to advise on and oversee the creation of 'bread funds' in the UK. In particular, they

98. Bread Funds UK, "Self-organised, self-employed and in control", https://mutualfirstaid.org.uk/wp-content/uploads/2017/05/BreadFunds-report-May2017-WEB.pdf (2017).
99. Field, "Bread funds: a pioneering model".
100. Bread Funds UK, "Self-organised".
101. Ibid.

would be a good way of scaling up bread funds in the UK and increasing take-up among the self-employed.

Should LEPs demonstrate that they have successfully facilitated bread funds in their local area, and that this has helped self-employed people on low incomes or from other marginalised groups, a small amount of additional funding could be awarded to them. In part, this would help the LEP to provide administrative and practical support to bread funds in a similar manner that De BroodfondsMakers provide in the Netherlands.

Taken together with our previous recommendation from an earlier report, this would mean that LEPs face a financial 'stick' in the form of conditional funding to set up general business advice networks for self-employed people, as well as a financial 'carrot' to facilitate the creation of bread funds for self-employed people.

Widening financial choice

Recommendation four: Create a fund to provide £10,000 of starting capital for self-employed mutual guarantee societies. This fund would be open for a five year trial period and limited to 100 successful applicants only.

Our fieldwork showed that a significant minority of self-employed people, particularly those from Black and mixed ethnic backgrounds, wanted personal financial support – such as loans from family and/or friends – but could not access them during the pandemic. Self-employed people clearly need a formalised security net beyond family and friends.

The government should encourage the establishment of mutual insurance schemes, or 'mutual guarantee societies ('MGSs'), that cater for self-employed people. This is where groups of small businesses support each other to access low-interest loans from banks by using their cash assets as collateral to guarantee each other's loans. Such a service is already successfully offered by a number of cooperatives across Europe.

In contrast to bread funds, MGSs are larger in scale. Their aims are also different: MGSs aim to secure more favourable business loan conditions for small businesses, rather than to provide insurance for individuals. Box 6.3, below, sets out more details around MGSs.

BOX 6.3. Mutual guarantee societies for self-employed people

MGSs are co-operative groups of small and medium-sized enterprises (SMEs) that guarantee each other's loans by using their other cash assets as collateral. The businesses can apply for a loan guarantee in the form of cooperative or mutual shares. To join an MGS, the customer usually pays a one-off processing fee and an annual guarantee fee.

If an SME is unable to honour their repayments to the lending bank, the MGS commits to pay a certain percentage of their loan – usually no more than 80%. Twenty percent of the risk remains with the lender and the SME is liable for the loan.

MGSs can, and often do, include the self-employed. For example, a directory of MGSs set up in Spain explicitly references self-employed people as participants and potential beneficiaries.[102] MGSs in Spain have been regulated since the late 1970s, have a particular legal form – the '*Sociedad de Garantía Recírpoca*' – and are under the supervision of the Bank of Spain.[103]

Indeed, across Europe MGSs are common practice. They are represented in Europe by the European Association of Guarantee Institutions (AECM), which operates in 20 EU countries plus Serbia, Bosnia and Herzegovina, Turkey and Russia. As of 2021, AECM member organisations had a total guarantee volume in portfolio of over 312 billion EUR supporting 5.9 million SMEs.[104]

102. Ministerio de Economia, Industria y Competitividad, "Reciprocal Guarantee Societies (SGR)", https://www.investinspain.org/en/publications/reciprocal-guarantee-societies
103. Magdaléna Kudelová, "Mutual guarantee societies and their future position in the European Union", http://www.opf.slu.cz/kfi/icfb/conf/papers/28_Kudelova_f.pdf.
104. AECM, "Mission", https://aecm.eu/about/mission/

Some MGSs were set up in the UK in the late 1990s and early 2000s. The National Association of MGSs was established in the UK in 1994 and ran eight pilot schemes across the UK with a total of 350 businesses. Co-Operative Bank and Unity Trust Bank were the only two banks signed up to the scheme.[105] Businesses joining the scheme paid an initial £25 fee which covered the cost of one share in the MGS. They could then deposit savings with the MGS from £1,000 to £10,000 in the coming year. The funds joined a pool of other members' cash which grew until the society was able to act as guarantor to any of its members when they needed a loan from their bank but did not have the collateral.

However, none of these UK MGSs were able to trade because of regulations by HM Treasury, which treated them as insurance companies and therefore required them to have high levels of formation capital. After a few years, in the absence of a new regulatory UK framework for MGSs, these pilot schemes were wound up by the end of 2003.[106]

The key function of an MGS is to spread business risk and enable SMEs and sole traders to access more loans on more favourable terms. There is some academic evidence that they do this. A study of SMEs in the Basque region found that SMEs that accessed MGS guarantees achieved greater access to bank financing than those without backing from an MGS.[107] A study of SMEs in Argentina between 2010 and 2016 produced similar findings. SMEs that received financial guarantees from MGSs increased their survival probability and also created more jobs.[108] In Italy, there is evidence that MGSs played a role in averting a break-up in credit flows to affiliated businesses in the immediate aftermath of the financial crisis.[109]

Admittedly, there is an absence of evidence specific to the UK and to self-employed people on the performance of MGSs. But international

105. John Stokdyk, "Mutual guarantee Societies – lending support", *Accountancy Age*, 15 April, 1998.
106. Pat Conaty, Alex Bird and Philip Ross, "Not alone: trade union and co-operative solutions for self-employed workers", https://www.union-coops.uk/wp-content/uploads/2021/04/not-alone-trade-union-co-operative-solutions-for-the-self-employed.pdf (2016).
107. Joaquín Miñarro- Gómez, Ginés Hernández- Cánovas and Pedro Martínez- Solano, "The effects of mutual guarantee societies on the SME's debt", *Universia Business Review* (2016).
108. David Giuliodori, Sebastian Guinazu, Julian Martinez-Correa and Rodolfo Stucchi, "The impact of guarantees on SMEs access to credit and employment", http://diobosi.com/pdf/tn_25_impact-of-guarantees-on-smes-access-to-credit-and-employment.pdf (2020).
109. Paolo Emilio Mistrulli et al., "Mutual Guarantee Institutions (MGIs) and Small Business Credit During the Crisis", *Bank of Italy Occasional Paper No. 105* (2012).

experience with such institutions appears to be, on the whole, positive, with several examples of MGSs that are open to the self-employed as well as SMEs more generally.

Government should create a fund for small businesses and sole traders – explicitly including self-employed people as well as SMEs – to access £10,000 of starting capital to set up a mutual insurance scheme.

To strengthen confidence in MGSs, the scheme could be delivered by established Community Development Financial Institutions (CDFIs). CDFIs are social enterprises that specialise in microfinance provision for financially vulnerable groups. They have existed in the UK since 1973[110] and are already regulated.

In order to assess the effectiveness of this scheme, a trial could be delivered using the FCA's regulatory sandbox. The regulatory sandbox gives firms access to regulatory expertise and a set of tools to test different approaches. Using the sandbox for MGSs would allow participating institutions to find workable parameters for MGSs in terms of minimum or maximum member numbers or to find entry requirements for joining the MGS such as length of trading history and average profits.

This fund would be open for a five year trial period and limited to 100 successful applicants only. This would minimise the cost to the Treasury to £1 million and allow the government to evaluate the success of the MGS trial.

Should the evidence prove it is useful and that take-up is likely to increase, the scheme should be rolled out for further applicants after the five year trial period, and a regulatory framework for MGSs (distinct from that for insurers) should be established, drawing upon the best approaches found in the regulatory sandbox.

Recommendation five: Government should allow self-employed people on low incomes to pause repayments on their

110. Responsible Finance, "History", https://responsiblefinance.org.uk/history/.

Start Up Loans (SULs) for up to six months across the lifetime of the loan. It should also regularly review the effectiveness of the SUL scheme for self-employed people in low income households and provide extra mentoring and advice services for applicants. Finally, SULs should not count towards the surplus earnings rule for self-employed people on UC.

'Microfinance' – which is the provision of small amounts of credit (in the UK, typically £500 to £25,000) to low-income and marginalised groups who would otherwise struggle to access traditional forms of finance – is one promising model to extend financial provision to financially vulnerable groups of the self-employed.

Admittedly, there are existing schemes to help newly self-employed people access microfinance. One of the main forms of this is Start Up Loans, which are offered by the Start Up Loans Company, a subsidiary of the British Business Bank.

BOX 6.4. What is the Start Up Loan Scheme programme?

The SUL scheme, which first launched in 2012 under the Coalition Government, comprises government-backed, unsecured personal loans from £500 to £25,000 to start or grow a new business. This has a fixed interest rate of 6% per annum with a repayment term of one to five years and includes 12 months of free mentoring.

Eligible applicants must be 18 years or older, a current UK resident, starting a new business or have been trading for up to 24 months, unable to secure finance from other sources, be a UK-based business, have the right to work in the UK, pass their credit checks and have the ability to repay the loan.

To date, 95,672 individual businesses have received loans from the SUL programme, totalling around £884 million in lending, with an average loan size of £9,240.[111]

111. British Business Bank, "Impact and achievements", https://www.startuploans.co.uk/achievements/ (2022).

Evaluation of the SUL scheme suggests that, so far, it has been effective. Overall, the programme has demonstrated value for money, with every £1 invested in the scheme estimated to deliver between £3 and £5.7 back to the economy.[112] Further analysis found that the value for money of the programme is higher once the pre-programme income of the beneficiary is taken into account, suggesting the programme plays a role in supporting disadvantaged and low-income individuals.[113]

There is also evidence that the scheme made self-employment a viable option among individuals for whom it would not have been without SUL support. Notably, out of 104 unemployed individuals in the 2016 SUL cohort sample, the majority (58) moved into self-employment. And of those who moved into self-employment after accessing SUL support, around half said that they would not now be in self-employment in the absence of the loans.[114]

Admittedly, there have been recent expansions of the SUL programme. At the 2021 Spending Review, the Government committed to funding for 33,000 additional SULs over the following three years, maintaining an increased rate of expansion that had been set at the 2020 Spending Review.

But while data on the SUL programme in aggregate is promising, more could be done to tailor the SUL programme, and improve its outcomes, for self-employed people on low incomes specifically.

First, to further the take-up of SULs among low-income self-employed people, the government could offer more generous repayment terms on SULs for self-employed people on low incomes.

At present, SULs have a repayment term of one to five years. The Government should explore making repayment terms more generous for low-income self-employed people by giving them the option to pause repayments for up to six months in total across the lifetime of the loan.

112. British Business Bank, "Evaluation of Start Up Loans: year 3 report", https://www.british-business-bank.co.uk/wp-content/uploads/2019/06/SUL-Evaluation-Year-3-Report-June-2019.pdf (2019).
113. Ibid.
114. Ibid.

A similar provision is available for Bounce Back Loans, where people have the option to delay repayments for six months from the first repayment.

Second, there is scope to collect more detailed data on outcomes for self-employed people on low income. The final evaluation report of the SUL programme was in 2019, though the Start Up Loans Company regularly reports on the amount, demographic and regional breakdowns of its loans.[115] Going forward, the SUL programme could be required to regularly monitor and report longitudinal data on outcomes for self-employed people on low incomes.

Third, while the overall effectiveness of the SUL programme is well-evidenced, the final evaluation report noted that a substantial proportion of individuals involved with the programme reported that they had not been offered mentoring support.[116] This reflects some regional variation in delivery. Furthermore, some of those that required additional external finance after the Start Up Loan did not seek it.[117] This may well be limiting the potential growth of some businesses that use the Start-Up programme and reflects the need to improve the availability of 'aftercare' advice for users of the programme.

The Government should review the effectiveness of mentoring support, including how well it reaches newly self-employed people and self-employed people on low incomes, and assess how it can better expand access to mentoring. In particular, the government should work with key stakeholders that have access to the newly self-employed to design and enable greater mentoring support.

Finally, another way of tailoring SULs to self-employed people on low income is thinking about the interaction between government-backed loans and UC. During the pandemic, many self-employed people claiming SEISS were, as a result, subjected to the UC surplus earnings rule. The surplus earnings rule means that if a self-employed person's

115. British Business Bank, "Impact and achievements".
116. British Business Bank, "Evaluation of Start-Up Loans".
117. Ibid.

earnings exceeds the point at which a UC award drops to zero by more than £2,500, the excess amount is carried forward into later assessment periods. Due to the lumpy nature of SEISS grants, which each covered three months, claimants often found their earnings significantly exceeding the threshold for UC surplus earnings purely as a result of the policy design of the SEISS, meaning that many who received an SEISS grant then received no UC award the next month.

In future, to avoid broader self-employed support schemes interfering with self-employed UC claims, the Government should make provisions for certain forms of income from support measures to be exempted from calculations of the surplus earnings floor. Specifically, this should include SULs. The key idea is to ensure that the surplus earnings rule is focused precisely on business earnings; indeed, the point of the policy is to reduce UC for people who do not need it after a highly successful business month. It is not to penalise self-employed people for investing in their businesses.

Recommendation six: A government-backed 'finance portal' for self-employed people, to summarise financial health and increase awareness of different options for financial support.

A substantial proportion of self-employed people in our fieldwork who wanted, but could not access, financial support cited not being aware of support available as the reason. Clearly, there is more that can be done to increase awareness of different financial products among self-employed people.

Alongside our earlier recommendations around auto-enrolment and loans, government should develop a central online hub where self-employed people can review their financial pots. The idea is similar to that of a 'pensions dashboard' – which shows a user their pension information securely in one place – but with some extensions. First, self-employed people would be able to see the status of their assets – in particular, their auto-enrolled pension, as well as its linked ISA or savings account, and their liabilities: their outstanding balance for

products such as Start-Up Loans and BCLs.

Second, there is a range of private financial provision which already exists that could be further leveraged by promoting awareness among self-employed people. Besides providing a basic financial overview, the finance portal could also signpost self-employed people to support providers such as their Local Enterprise Partnership as well as commercial financial options, in particular invoice factoring and invoice discounting. Box 6.5, below, explains the two main forms of invoice financing – factoring and discounting – in more detail.

BOX 6.5. What is invoice factoring and invoice discounting?

Invoice factoring is a financial arrangement whereby a trader effectively 'sells' their outstanding invoices to a lender. The lender pays upfront a proportion – typically between 70% and 90% – of the invoice to the borrower and will then chase payment for the invoice. Once the invoice is received, the borrower will then receive the remainder of the invoice amount less interest and fees.

Invoice discounting works in a similar way to invoice factoring, except the borrower maintains responsibility for collecting payments on invoices. Because the borrower still has this responsibility, the costs of invoice discounting tend to be lower.

Some providers offer 'selective invoice factoring', also known as 'spot factoring' or 'single invoice finance.' This allows businesses to release funds against specific invoices, rather than on any invoice.

This form of business finance is one way that small businesses, and some self-employed people, can make their cashflow more predictable.

Invoice finance has potential to expand further. Government estimates from 2018 found that, at the time, around 40,000 businesses in the UK use invoice finance, but this is only around 10% of the number of businesses that could potentially make use of it.[118]

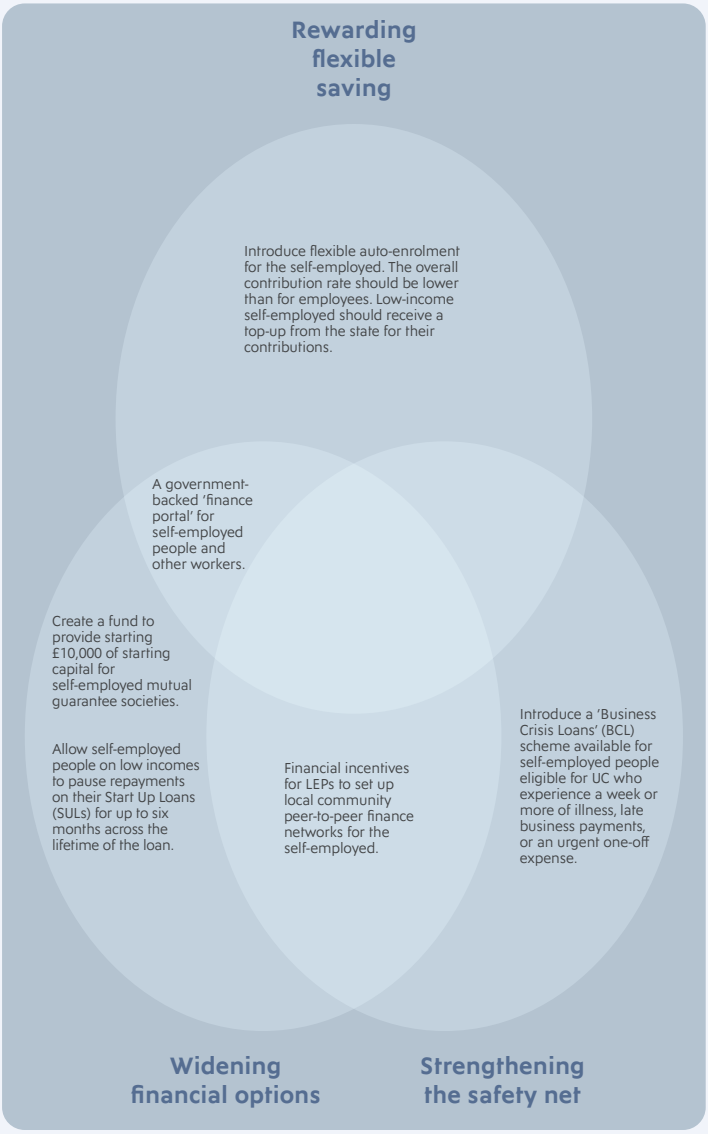
118. BEIS, "Explanatory memorandum to the Business Contract Terms (Assignment Of Receivables) Regulations 2018, https://www.legislation.gov.uk/uksi/2018/1254/pdfs/uksiem_20181254_en.pdf (2018).

Indeed, a centralised finance portal would not only benefit self-employed people. While certain features of it, such as signposting for LEPs or information on options such as invoice financing, would need to be tailored to self-employed people specifically, an approach like this would be beneficial for workers in general. Extending the approach to all workers would also strengthen the rationale for government to develop a centralised finance portal service.

Conclusion

Figure 6.2, below, summarises our policy recommendations and illustrates how they relate to our principles of boosting financial resilience, strengthening the safety net and widening financial choice. As mentioned previously in the chapter, it is also important to target new support towards low-income households and financially vulnerable groups of the self-employed and to ensure that policies are fiscally responsible, but these principles are intended as a guide to the overall policy framework, rather than determining the key objectives of individual policies. As such, only the first three principles are shown below.

Figure 6.2. Summary of policy recommendations



Conclusion

The COVID-19 pandemic posed enormous financial, occupational, social and psychological challenges for self-employed people, particularly those on low to middle incomes. While support from the government, commercial providers and personal relations was massive, there were still some gaps, especially for some groups of self-employed people such as lower income households and older age groups.

As a consequence of COVID-19 and the ongoing pressures self-employed people are facing, the rise in self-employment that the UK has experienced since the turn of the century is now in jeopardy.

With the cost of living increasing rapidly, self-employed people again face significant challenges for the foreseeable future. To better help self-employed people through future national and individual crises, new and ambitious public policies are urgently needed in line with five key principles.

First, ensuring that self-employed people are better rewarded and incentivised for saving. This will, over time, build up the financial resilience of self-employed people and their ability to weather future crises. But it is important that self-employed people are able to save flexibly to meet immediate challenges as well as build up savings for retirement.

Second, widening financial choice. Self-employed people during COVID-19 were, to some extent, constrained by a lack of suitable products and a lack of awareness. Increasing access to financial products and strengthening awareness of different financial products should be a key objective for policy to help self-employed people in the future.

Third, strengthening the safety net. There is scope both to improve the design of UC and other elements of the welfare system for self-employed people and to encourage financial co-operation among self-employed people to ensure replacement income in times of illness or disruption.

Fourth, support should be targeted at the groups of self-employed people that need it most. In particular, lower income households

should be a priority. But other groups, such as young people and ethnic minorities, relied relatively heavily on support during COVID-19, while some, such as older self-employed people, had more difficulty navigating the support system.

Finally, new support measures should be fiscally responsible considering the state of the public finances. This does not necessarily mean fiscal neutrality, but it does mean that new policies to support self-employed people should be low cost and cost effective.

Annex A:
Depth interview discussion guide

SECTION 1 [8- 10 minutes]
Experiences of the Covid-19 pandemic

7. What has been the biggest impact of Covid-19 on your life?

a. Please describe any positives [RECORD VERBATIM]

b. Please describe any negatives [RECORD VERBATIM]

8. How has Covid-19 impacted you socially? [RECORD VERBATIM] Has it had any impact on your:

a. Mental health Y/N

b. Family life Y/N

c. Social life etc. Y/N

d. Others (specify) Y/N

9. [Interviewer to CODE A, B, C, D] and can you tell me the reason for your answer? [probe, why was that?] RECORD ANSWER VERBATIM FOR EACH CODE INDIVIDUALLY

10. In your own words, how would you describe the impact of the Covid-19 pandemic on your work? [participants to describe in own terms, first of all, please fully record verbatim responses]

11. What would you say the biggest challenges have been over the Covid-19 pandemic for your work? [please probe as fully as possible for verbatim responses]

a. Is there anything that has been uniquely challenging about your work because of the sector you work in?

b. Is there anything that has been uniquely challenging about your work because of your personal circumstances?

12. Are you doing things differently in your work as a result of the pandemic?

a. Yes – significantly changed

b. Yes – changed somewhat

c. No – not at all

d. No- I have not been able to work due to the pandemic

13. [INTERVIEWER TO CODE a,b,c,d] and can you tell me the reason for your answer? [RECORD VERBATIM RESPONSE]

14. Over the past year, would you say your standard of living and income has:

a. Improved

b. Reduced

c. Stayed the same

15. [Interviewer to CODE A, B, C] and can you tell me the reason for your answer? [probe, why was that?] RECORD ANSWER VERBATIM

SECTION 2 [10-12 minutes]
Strategies and support services used

1. How well do you think self-employed people have been supported by the government over the pandemic?

a. Very well
b. Fairly well
c. Not well
d. Not well at all

[CODE A-D] and can you give me a reason for your answer] CODE VERBATIM RESPONSE Do you know of any other self-employed people who have struggled during the pandemic – and why CODE VERBATIM RESPONSE

2. Are you aware of the government's Self-Employed Income Support Scheme [SEISS]?

a. I've heard of it and used it – ASK 3A
b. I've heard of it but not used it – ASK 3B
c. I've not heard of it – ASK 3C

[interviewer to CODE answer]

3a. YOU said you've heard of SEISS it and used it, can you tell me about that? [open ended then prompt with below] – RECORD VERBATIM

THEN ASK:

What prompted you to claim for a grant under SEISS?
How did you find the process?
How did this grant help you? What difference did it make to your work?
How may it be improved or made more relevant to your needs?

[INTERVIEWER RECORD VERBATIM RESPONSE TO EACH POINT]

3b. YOU said you've heard of it and not used it, can you tell me about that? [open ended then prompt with below] RECORD VERBATIM

Did you look to see if you were eligible for a grant under SEISS?

How did you find the process of finding out about it?

What were the reasons why you did not apply [e.g. work was not impacted, had not been registered self-employed for long enough, other eligibility issues]

How may it be improved or made more relevant to your needs?

[INTERVIEWER RECORD VERBATIM RESPONSE TO EACH POINT]

3c. You said you have not heard of the Self-Employed Income Support Scheme, can you tell me more about that?

Did you look for any government schemes/support?

Did you seek advice about any other schemes – from where and which ones?

Why/why not?

[INTERVIEWER RECORD VERBATIM RESPONSE TO EACH POINT]

4. What sources of support have you used during the pandemic?

- Financial, practical or emotional?
- From family, friends, government, payday lenders?

RECORD VERBATIM RESPONSE

5. Out of all the support you have received, what has been most useful?

6. How much financial support have you been receiving, and how frequently? (You don't have to give a monetary value, if you don't want)

7. Have you considered/ considered but not used / used any of these:

- Business loans
- Personal loans
- Universal Credit
- Other benefits
- Personal savings
- Other source of financial support (please specify)

[record response and any verbatim comments]

THEN ASK FOR EACH SERVICE USED: Why did you use this product/ service? Has it been as effective as you'd hoped? How can it be improved?

SECTION 3 [4- 6 minutes]
The future

1.1 Thinking about the future, as we come out of the pandemic, do you expect your financial health to:

1. Improve over the next 12 months
2. Stay the same over the next 12 months
3. Get worse over the next 12 months

[Interviewer please code 1,2,3] and can you tell me about that? What's the reason for your answer? RECORD VERBATIM

1.2 Thinking about the future, as we come out of the pandemic, do you expect your mental health to:

1. Improve over the next 12 months
2. Stay the same over the next 12 months
3. Get worse over the next 12 months

[Interviewer please code 1,2,3] and can you tell me about that? What's the reason for your answer? RECORD VERBATIM

2. **Are you likely to remain self-employed in the next 1-2 years or will you consider another option?**

a. Likely to stay self-employed
b. Likely to return to employment
c. Combine employment and self-employment
d. Take some time out of the labour force
e. Other

[interviewer to code a to f] and can you give me a reason for your answer? [RECORD VERBATIM]

3. **Would you be willing to pay higher taxes in exchange for greater state support?**

4. **Do you think self-employed people should pay the same taxes as employees in order to get the same benefits?**

5. **What policies or products would you like to see introduced to support self-employed people in the future? These can be financial or non-financial. [please give as much detail as you can]**

RECORD VERBATIM

6. **What can the Government do to better support self-employed people if they face individual crises, or society faces another major crisis like a pandemic, again?**

7. **Finally, what is your ethnic group? Please choose one which best describes your ethnic group or background.**

Annex B:
Polling questions

Section 1: Impact of COVID

ASK ALL

Q1 Has the type of work you do changed as a result of the COVID-19 pandemic?

SELECT ONE

1. Completely changed type of work
2. Most of my work changed, but some stayed the same
3. Some of my work changed, but most stayed the same
4. No change
5. Don't know

ASK ALL

Q2 How, if at all, has the COVID-19 pandemic affected the hours you work?

SELECT ONE

1. Greatly increased hours
2. Slightly increased hours
3. No effect on hours
4. Slightly reduced hours

5. Greatly reduced hours
6. Don't know

ASK ALL

Q3 What has been the biggest negative impact of COVID-19 on your work?

SELECT ONE

1. Loss of income
2. Reduced demand for my work
3. Reduced trading capacity due to COVID-19 restrictions
4. Less efficiency in the way I work
5. My sector was shut down
6. Uncertainty (around government policy and the COVID situation)
7. Difficulty networking or maintaining client relationships
8. Other (please specify)
9. Don't know

ASK ALL

Q4 What has been the biggest positive impact of the COVID-19 pandemic on your work?

SELECT ONE

1. Increased income
2. Increased demand for my work
3. I was able to expand my work
4. More efficiency in the way I work
5. I was able to upskill
6. I was able to invest in my work
7. I was able to build relationships with clients and partners in new ways
8. Other (please specify)
9. Don't know

ASK ALL

Q5 What has been the biggest negative impact of the COVID-19 pandemic on your life generally?

SELECT ONE

1. Worsened my personal finances
2. Worsened my work situation
3. Worsened my work-life balance
4. Worsened my mental health
5. Made it difficult to connect with friends and family
6. Other (please specify)
7. Don't know

ASK ALL

Q6 What has been the biggest positive impact of the COVID-19 pandemic on your life generally?

SELECT ONE

1. Improved my personal finances
2. Improved my work situation
3. Improved my work-life balance
4. Improved my mental health
5. Brought me closer to friends and family
6. Other (please specify)
7. Don't know

Section 2: responses to COVID / support systems

2.1 Government support

ASK ALL

Q7 Which, if any, sources of financial support from the Government did you use during the COVID-19 pandemic?

SELECT ALL THAT APPLY

1. SEISS
2. Bounceback loans
3. Coronavirus Business Interruption Loan Scheme (CBILS)
4. Universal Credit
5. Business grants
6. Deferred self-assessment
7. Other (please specify)
8. None – wanted support but couldn't access **[EXCLUSIVE]**
9. None – didn't need support **[EXCLUSIVE]**

ASK IF "WHICH, IF ANY, SOURCES OF FINANCIAL SUPPORT FROM THE GOVERNMENT DID YOU USE? CHECK ALL THAT APPLY." IS NOT "NONE", IS NOT EXACTLY "OTHER"

Q7.1 How helpful or unhelpful was the support you used?

SELECT ONE PER ROW

			Very helpful	Somewhat helpful	Neither helpful nor unhelpful	Somewhat unhelpful	Very unhelpful	Don't know
SHOWN IF USED	1	SEISS	5	4	3	2	1	9
	2	Bounceback loans	5	4	3	2	1	9
	3	Coronavirus Business Interruption Loan Scheme (CBILS)	5	4	3	2	1	9
	4	Universal Credit	5	4	3	2	1	9
	5	Business grants	5	4	3	2	1	9
	6	Deferred self-assessment	5	4	3	2	1	9

ASK IF WHICH, IF ANY, SOURCES OF FINANCIAL SUPPORT FROM THE GOVERNMENT DID YOU USE? CHECK ALL THAT APPLY. IS "NONE – WANTED SUPPORT BUT COULDN'T ACCESS".

Q7.2 You said you wanted financial support from the Government but couldn't access it. Which of the following reasons applied to your situation?

SELECT ALL THAT APPLY

1. The application process required tax returns / documentation I didn't have
2. Too newly self-employed
3. Unclear help/advice on how to apply
4. I haven't had time/resources to dedicate to applying
5. Wasn't aware of support available
6. My savings and/or income made me ineligible
7. Other (please specify)

ASK ALL

Q8 What would you say were the main problems with the financial support measures the Government put in place for self-employed people during the COVID-19 pandemic? SELECT THE TOP THREE

1. Too many groups (e.g. newly self-employed) excluded
2. Application process was too strict on tax returns/documentation
3. Unclear help/advice on how to apply
4. Not enough people were made aware of support
5. People didn't have enough time/resources to navigate the application process
6. Payments were not generous enough
7. Payments were late
8. Poor targeting (didn't reach those it needed to)
9. Other (please specify)
10. None **[EXCLUSIVE]**
11. Don't know **[EXCLUSIVE]**

ASK ALL

Q9 Overall, to what extent have you felt supported by the Government during the COVID-19 pandemic?

SELECT ONE

1. Very well
2. Quite well
3. Neither well nor badly
4. Quite badly
5. Very badly
6. Didn't need any support
7. Don't know

2.2 Private support

ASK ALL

Q10 Which, if any, sources of non-government financial support did you use during the COVID-19 pandemic?

SELECT ALL THAT APPLY

1. Bank loan
2. New credit card
3. Payday loan
4. Rent reduction
5. Mortgage relief
6. Deferred payments
7. Other (please specify)
8. None – wanted support but couldn't access **[EXCLUSIVE]**
9. None – didn't need support **[EXCLUSIVE]**

ASK "IF WHICH, IF ANY, SOURCES OF NON-GOVERNMENT FINANCIAL SUPPORT DID YOU USE? CHECK ALL THAT APPLY." IS NOT "NONE", IS NOT EXACTLY "OTHER"

Q11.1 How helpful or unhelpful was the non-government financial support you used?

SELECT ONE PER ROW

			Very helpful	Somewhat helpful	Neither helpful nor unhelpful	Somewhat unhelpful	Very unhelpful	Don't know
SHOWN IF USED	1	Bank loan	5	4	3	2	1	9
	2	New credit card	5	4	3	2	1	9
	3	Payday loan	5	4	3	2	1	9
	4	Rent reduction	5	4	3	2	1	9
	5	Mortgage relief	5	4	3	2	1	9
	6	Deferred payments	5	4	3	2	1	9

ASK IF "WHICH, IF ANY, SOURCES OF NON-GOVERNMENT FINANCIAL SUPPORT DID YOU USE? CHECK ALL THAT APPLY." IS NOT "NONE– WANTED SUPPORT BUT COULDN'T ACCESS"

Q11.2 You said you wanted non-government financial support but couldn't access it. Which of the following reasons applied to your situation?

SELECT ALL THAT APPLY

1. I couldn't find a suitable product to meet my needs
2. My application was declined by the provider
3. I could not afford repayments
4. Unclear help/advice on how to apply
5. I haven't had time/resources to dedicate to applying
6. Wasn't aware of support available
7. Other (please specify)

ASK ALL

Q12 To what extent have you felt supported by the following over the course of the COVID-19 pandemic?

SELECT ONE PER ROW

		Very well	Quite well	Neither well nor badly	Quite badly	Very badly	Didn't need any support	Don't know
1	Banks	5	4	3	2	1	8	9
2	Suppliers	5	4	3	2	1	8	9
3	Landlords	5	4	3	2	1	8	9
4	Businesses	5	4	3	2	1	8	9

ASK ALL

Q13 What would you say were the main issues with non-government support (from banks, businesses etc.) for self-employed people during the COVID-19 pandemic?

SELECT TOP THREE

1. Lack of suitable financial products
2. Strict application process
3. Strict repayment terms
4. Unclear help/advice on how to apply
5. Not enough people aware of support
6. Not generous enough
7. Other (please specify)
8. None [EXCLUSIVE]
9. Don't know **[EXCLUSIVE]**

2.3 Personal support

ASK ALL

Q14 Which, if any, sources of personal financial support did you use during the COVID-19 pandemic?

SELECT ALL THAT APPLY

1. Own savings
2. Loans from family and/or friends
3. Financial gifts from family and/or friends
4. Other (please specify)
5. None – wanted support but couldn't access **[EXCLUSIVE]**
6. None – didn't need support **[EXCLUSIVE]**

ASK IF "WHICH, IF ANY, SOURCES OF PERSONAL FINANCIAL SUPPORT DID YOU USE? CHECK ALL THAT APPLY." IS NOT "NONE", IS NOT EXACTLY "OTHER"

Q15.1 How helpful or unhelpful was the personal financial support you used?

SELECT ONE PER ROW

			Very helpful	Somewhat helpful	Neither helpful nor unhelpful	Somewhat unhelpful	Very unhelpful	Don't know
SHOWN IF USED	1	Own savings	5	4	3	2	1	9
	2	Loans from family and/or friends	5	4	3	2	1	9
	3	Financial gifts from family and / or friends	5	4	3	2	1	9

ASK IF "WHICH, IF ANY, SOURCES OF PERSONAL FINANCIAL SUPPORT DID YOU USE? CHECK ALL THAT APPLY." IS NOT "NONE– WANTED SUPPORT BUT COULDN'T ACCESS"

Q15.2 You said you wanted personal financial support but couldn't access it. Which of the following reasons applied to your situation?

SELECT ALL THAT APPLY

1. Didn't have access to support
2. Not enough support available
3. Wasn't aware of support available
4. Not close enough to family and/or friends
5. Other (please specify)

Section 3: Provider preferences

ASK ALL

Q16 Thinking about your experiences over the COVID-19 pandemic, which sources of financial support did you rely on most during the pandemic?

SELECT ALL THAT APPLY

1. HMRC
2. Department for Work and Pensions (DWP)
3. Banks
4. Loan providers
5. Other self-employed people
6. Businesses
7. Family
8. Friends
9. Neighbours
10. Other (please specify)
11. None **[EXCLUSIVE]**
12. Don't know **[EXCLUSIVE]**

Section 4: Policy preferences

ASK ALL

Q17 If the Government were thinking about how to better support self-employed people after the pandemic, which of these reforms should they prioritise?

SELECT ONE

1. More support to save for retirement
2. Access to sick pay and holiday pay
3. A voluntary 'welfare account' that I pay into and government tops up
4. A centralised advice portal for self-employment
5. Simplified tax admin

6. More grants/subsidies for self-employment
7. More generous welfare payments
8. Greater political representation for the self-employed
9. More clarity on the legal status of self-employment
10. More access to low-interest loans
11. Other (please specify)
12. Don't know

ASK ALL

Q18 Would you be willing to pay higher taxes in exchange for more state support, such as statutory maternity/paternity pay and jobseeker's allowance?

SELECT ONE

1. Yes – a lot more in taxes for a lot more support
2. Yes – a little more in taxes for a little more support
3. No – keep taxes and support the same
4. No – reduce taxes and level of support a little
5. No – reduce taxes and level of support a lot
6. Don't know

ASK IF WOULD YOU BE WILLING TO PAY HIGHER TAXES IN EXCHANGE FOR MORE STATE SUPPORT, SUCH AS STATUTORY MATERNITY/PATERNITY PAY AND JOBSEEKER'S ALLOWANCE? IS "YES"

Q18.1 You said you would be willing to pay more in taxes. Which of the following describe your reasons for this?

SELECT ALL THAT APPLY

1. Better public services
2. More redistribution / a fairer society
3. Because the government needs revenue
4. Other (please specify)
5. Don't know **[EXCLUSIVE]**

ASK IF WOULD YOU BE WILLING TO PAY HIGHER TAXES IN EXCHANGE FOR MORE STATE SUPPORT, SUCH AS STATUTORY MATERNITY/PATERNITY PAY AND JOBSEEKER'S ALLOWANCE? IS "NO"

Q18.2 You said you would not be willing to pay more in taxes. Which of the following describe your reasons for this?

SELECT ALL THAT APPLY

1. Self-employed people already pay enough taxes
2. I don't trust government to spend wisely
3. I don't think I would see any benefits
4. The government can already afford it
5. I prefer to top up with non-government support from banks, businesses, loan providers etc.
6. Other (please specify)
7. Don't know **[EXCLUSIVE]**

ASK ALL

Q19 Do you think employees and the self-employed should pay the same level of taxes and national insurance in exchange for access to the same benefits?

SELECT ONE

1. Yes
2. No
3. Don't know

ASK ALL

Q20 If you could improve non-government financial support for self-employed people (from banks, businesses, loan providers etc.) which area would you prioritise?

SELECT ONE

1. Pension schemes designed specifically for self-employed people, with flexibility around the amount and frequency of payments
2. More choice of self-employed business insurance products or pooled risk schemes
3. Better access to business loans
4. Other (please specify)
5. Don't know

Section 5: future plans

ASK ALL

Q21 What are your plans for after the pandemic?

SELECT ONE

a. Stay in self-employment and grow my hours/workload
b. Stay in self-employment and maintain my hours/workload
c. Stay in self-employment, but reduce my hours/workload
d. Combine self-employment and employment
e. Leave self-employment altogether
f. Other (please specify)
g. Don't know

The COVID-19 pandemic led to significant financial, occupational, social and psychological changes for self-employed people from low and middle income households. Challenges are now being compounded by the rising cost of living.

There is now a greater need than ever for new and ambitious public policies that can help self-employed people navigate national and individual crises. Currently, self-employed people face too many barriers to accessing financial support, both from governmental and commercial sources. This report details a better system of support for self-employed people which encourages savings, improves access to finance and strengthens the safety net.

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