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Admittedly, COVID-19 has been superseded by the cost of living crisis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