



# ENTREPRENEURS, START-UPS AND BUSINESS GROWTH

Self-Employment: Part 1

Published: December 2024

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Federation of  
Small Businesses

## ACKNOWLEDGEMENTS

This report was written by Emelia Quist, Head of Policy Research, Chris Russell, Senior Policy Manager and Phoebe Sarjant, Policy Advisor with contributions from Iliana Pearce, Policy Advisor.

Special thanks to all those in FSB's media, public affairs and policy teams in Westminster, Scotland, Wales and Northern Ireland who provided insight and support, in particular Anna Slater, Deputy Head of Media, Fil Pollara, Senior Public Affairs Advisor, Tom Blenkinsop, Senior Public Affairs Advisor. Also, colleagues in the devolved nations: Neil Hutcheson, Head of Policy (Northern Ireland); Stacey Dingwall, Head of Policy (Scotland); Dr Llŷr ap Gareth, Head of Policy (Wales). Special thanks also to former colleague Rebecca Hyslova for her work on this report.

Thank you also to all the FSB members and other small businesses and the self-employed who took the time to engage with our research which underpins this report. The quantitative research was carried out by Verve – the market research agency responsible for administering the survey. The report was designed by Cactus Design Limited – a small business based in Wales.

## WHO WE ARE

The Federation of Small Businesses (FSB) is the UK's grassroots business organisation. We are a cross-party non-profit body that represents small business and self-employed members in every nation and region. In 2024, FSB celebrates 50 years of being the authoritative voice on issues affecting the UK's 5.5 million small businesses, microbusinesses and the self-employed.

FSB is the UK's largest business group and leading business campaigner, focused on achieving change which supports smaller businesses to grow and succeed. We also provide our members with a wide range of vital business services, helping them to start, run, and grow successful businesses through high quality protection and support. This includes 24/7 legal support, financial expertise, training and events, debt recovery and employment/HR advice – alongside a powerful voice heard by governments at all levels.

Our local, national and international activism helps shape policy decisions that have a direct impact on the day-to-day running of smaller businesses. We work for their interests through research and engagement with our members and by effective campaigning - influencing those in power through policy analysis, public affairs, media and public relations activity. Our advocacy work starts with our expert external affairs team in Westminster, which focuses on UK and England policy issues, the UK Government, Parliament and media and communications engagement. Further to this, our teams in Glasgow, Cardiff and Belfast work with governments, elected representatives and media in Scotland, Wales and Northern Ireland.

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# FOREWORD

Entrepreneurship provides many with a path to financial freedom and independence. For some, it's a long-held dream, for others, it comes after an unexpected career shift. Thanks to technology, starting a business has never been easier, and being your own boss is a strong draw. Every year, around 400,000 people choose to go it alone, but that figure needs to be higher.

The Government aims to achieve 80 per cent employment, but we're still far from that target. Encouraging entrepreneurship might not seem like an obvious way to achieve this, but it is a crucial factor in closing that gap.

However, this isn't just about meeting employment targets. Self-employment and business creation are vital for driving economic growth. Not only does it give people control over their futures, but it also brings fresh ideas to the market. Supporting people to build their businesses fuels local growth, creates jobs, and strengthens economic resilience.

Yet, entrepreneurs are often overlooked and face significant challenges.

To truly unlock the potential of self-employment, small businesses must receive the necessary support. This report proposes introducing new ambitious schemes to enable more people to start businesses. It's equally important to help established businesses grow.

Inclusive entrepreneurship policies can ensure that everyone, regardless of their background, has a fair chance to start and expand their businesses, helping to reduce inequality. For instance, we find high entrepreneurial intentions amongst people from an ethnic minority background yet they often lack the support to reach their potential. Business owners from the LGBT+ community also need better resources to encourage them to go at it alone. Setting targets is also vital. We should aim for fifty per cent of all self-employed people to be women by 2035 and 250,000 additional disabled entrepreneurs by 2030.

This year FSB celebrates 50 years of supporting small businesses and the self-employed. Over the last 50 years the Federation of Small Businesses has campaigned for the current and future success of UK entrepreneurs. It's crucial that policymakers continue to support the self-employed whether they're starting the next high-tech firm in the city or launching a pop-up in a small village.

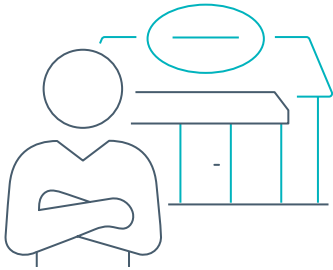
This report is the first in a series of reports which provides new evidence on why people choose to be their own boss, what they need to grow and realise their full potential.



**Tina McKenzie**  
FSB Chair, Policy and Advocacy

# ENTREPRENEURS, START-UPS AND BUSINESS GROWTH

## TOP THREE REASONS TO BE YOUR OWN BOSS



Independence at work

**67%**



Better work life balance

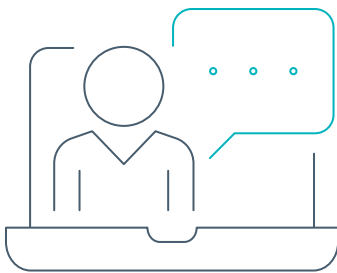
**53%**



Create wealth for individual and their family

**45%**

## TO IMPROVE SOLE TRADERS' ABILITY TO START THEIR BUSINESS:



**48%**

want free or subsidised impartial business support advice



**38%**

want free or subsidised mentoring



**25%**

want more opportunities to network



## BEING YOUR OWN BOSS GROWTH ASPIRATIONS



Over half (**53%**) of entrepreneurs who have been established for three years or more intend to do one of the below in the next three years:

- **31%** plan to **develop a new product** (goods or services) to market
- **13%** plan to start and/or grow a business in **digital or technology sector**
- **33%** plan to **recruit more workers**
- **15%** plan to **export goods or services** outside of the UK/Ireland



**38%** of sole traders identify **exclusion from government support schemes** due to eligibility rules as a challenge

# RECOMMENDATIONS

## Start-ups

### HM Treasury and HMRC should:

- Double the trading allowance, from £1,000 of trading income to £2,000, to help more people have a smooth start to their side-hustle activity, promoting greater levels of entrepreneurial activity.

### The Department for Business and Trade should:

- Set itself a target to have more businesses in the UK by the end of this Parliament than in 2020; this would require a target of six million SMEs in the UK by January 2028, 500,000 additional SMEs than there are currently.
- Launch a Help to Start programme that provides free support for those considering starting a business or have started in the last three years. Mentoring, peer-to-peer support as well as easy to access information, including on access to finance, should be the core components of this scheme. This programme could feature within the department's Help to Grow campaign.
- Update their annual official statistics 'Business population estimates for the UK and regions' so that they include a more granular regional breakdown of the number of businesses at a local level, by employment size bands.

### The Department for Work and Pensions should:

- Introduce an New Traders Allowance for jobseekers, particularly disabled people, which would offer tailored support and increased payments to help them transition into entrepreneurship. The new scheme, which would be a more effective and ambitious replacement for the New Enterprise Allowance (NEA), should be available to all of those not currently in employment.

## Business growth

### HM Treasury should:

- Commit to increase the value of the Employment Allowance so it rises in line with increases in the National Living Wage. Small businesses often face large difficulties in recruiting, in particular when hiring for the first time.

### The Department for Business and Trade should:

- Monitor and publish the level of publicly funded business support that is delivered by the private sector and those with experience of running a business. Consideration should also be given to issuing targets where the overwhelming majority of the support on offer is given by the private sector or by individuals with experience of running a business.
- Incentivise Growth Hubs to reach out to more self-employed people and capture data on their engagement.

- Maintain Help to Grow: Management and the recently launched Help to Grow: Management Essentials.
- Develop a tech adoption and digital skills diagnostic tool. This would provide small business owners and the self-employed with advice on what business processes they could potentially automate and advice/signposting to encourage them to do so.
- Introduce digital audit vouchers for small businesses and the self-employed to enable more entrepreneurs to think about how they are using data and technology, vouchers should be introduced to enable them to audit their tech needs and what technology they should consider adopting.

#### **The Department for Work and Pensions should:**

- Provide funding for local authorities to introduce schemes that support sole traders to make a first hire, when employing someone who was previously unemployed or economically inactive. This could be initially targeted to geographic areas with high levels of the working population out of work.

### **Securing the foundations for self-employment**

#### **UK Government should:**

- Guarantee the freedom to contract remains, and employment status is not redefined to create a default assumption of an individual being a worker unless proven otherwise.
- Review the IR35 regulations, with the aim of reducing complexity and improving understanding.
- Learn lessons from the pandemic, so that any future income support scheme for small businesses is flexible from the outset. Directors who draw income from running their business via dividends must be treated in-line with the self-employed.
- Conduct full Equality Impact Assessments in the event where entrepreneurs require financial support from the Government.

### **Inclusive entrepreneurship**

#### **UK Government should:**

- Improve the accessibility of business support through collaboration with organisations such as the British Library, Civil Society organisations and other local community-based organisations, which are able to reach out to ethnic minority business owners in our most diverse communities.
- Implement a peer-to-peer network support system/mentoring programme to help self-employed women and female entrepreneurs to start and scale up their businesses.

**The Department for Business and Trade should:**

- Set a target to have 250,000 more disabled entrepreneurs by 2030.
- Set a target that 50 per cent of self-employed individuals should be women by 2035.

**The Department for Work and Pensions should:**

- Publicise Access to Work at each point of contact between entrepreneurs and Government – including through primary care settings, and HMRC.
- A forthcoming pensions review should consider the economic and entrepreneurial benefits that Pension Freedom legislation has brought over the last fifteen years.



# UK ENTREPRENEURS, START-UPS AND BUSINESS GROWTH

This report covers those who have chosen to set up a business or to put it simply those who want to be their own boss. There isn't a particular label that can be attributed to this group. This includes sole traders, freelance contractors, partners in small partnerships, as well as sole directors in limited companies.

Entrepreneurial activity is vital for the country's economy and society. Enterprise is an integral part of the UK's national identity; we are "a nation of shopkeepers". FSB was established in 1974 when self-employment stood around 7 per cent of the labour force. Following the financial crash of 2008, there was once again an increase in self-employment and despite the pandemic having led to a large reduction in the number of self-employed, from which the numbers have still not recovered, the long-term trend has been an increase in the number of self-employed people in the labour market. According to the Enterprise Research Centre:

**"The growth in self-employment since the global financial crisis and earlier has been a striking feature of employment patterns in the UK (ONS, 2018). This is a pattern of growth which has been almost unique amongst western advanced economies. The self-employment rate in the UK in 2019 stood at over 15 per cent of those in employment, having grown from around 13 per cent a decade previously (Annual Population Survey, those aged 16+, NOMIS). At the end of 2019, just above five million workers in the UK were self-employed (ONS, 2020)."**

Self-employment is a key driver of economic growth; if we are to see economic growth over the next five years, the UK Government should look to increase the number of genuinely self-employed. Self-employment has played a valuable role in opening employment to those who otherwise might not be in work. Self-employment provides many with independence and the ability to utilise their creativity to fulfil a personal vision. Sadly, the COVID-19 pandemic had a major impact on the self-employed, their incomes were decimated, and their businesses faced an uncertain future.

## Why do people start a business?

People enter entrepreneurship for a variety of reasons. For some, setting up as self-employed is a response to weak expansion in the wider labour market and it is out of necessity. FSB research shows many people (67%) enter entrepreneurship after leaving full time employment.

**“My husband got very ill, and I had to make career choices around that for 6 years. When I was an employee, I knew I wasn’t able to do things in the company as I’d like. For example, if I wanted to go for a promotion, I knew I couldn’t, because I needed to look after my husband, my son, travel to a care home... I always had to be on call, and I had to take that into consideration. It was quite restrictive, and I couldn’t make decisions for myself.”**

Helen Todd, Business Consultancy, Northern Ireland

Male entrepreneurs are more likely to leave full time employment (71% vs. 60% of female entrepreneurs). Women, on the other hand, are more likely to be leaving part time work (11% vs. 1% of self-employed men).

**“I got into self-employment originally through the Prince’s Trust who gave me some training and a £250 grant in the early 2000s to start a face-painting and circus skills business: before this I worked with young children as a trained early years teacher, including in Sure Start. The assistance from the Prince’s Trust was very helpful to me in developing my business plan. This was originally a ‘side gig’, which then developed into a full-time job. I wouldn’t change my decision to become self-employed though, despite the difficulties: the ability to do my own thing is invaluable.”**

Sue Scargill, Rainbow Stripes, Nottingham

## Benefits to being your own boss

There is a myriad of reasons individuals choose to be their own boss, many of which relate to the flexibility and other benefits that it brings. 67 per cent of entrepreneurs say independence at work is the main benefit of self-employment, followed by being able to better balance work and personal/family life (53%) and creating wealth for themselves and their family (45%).

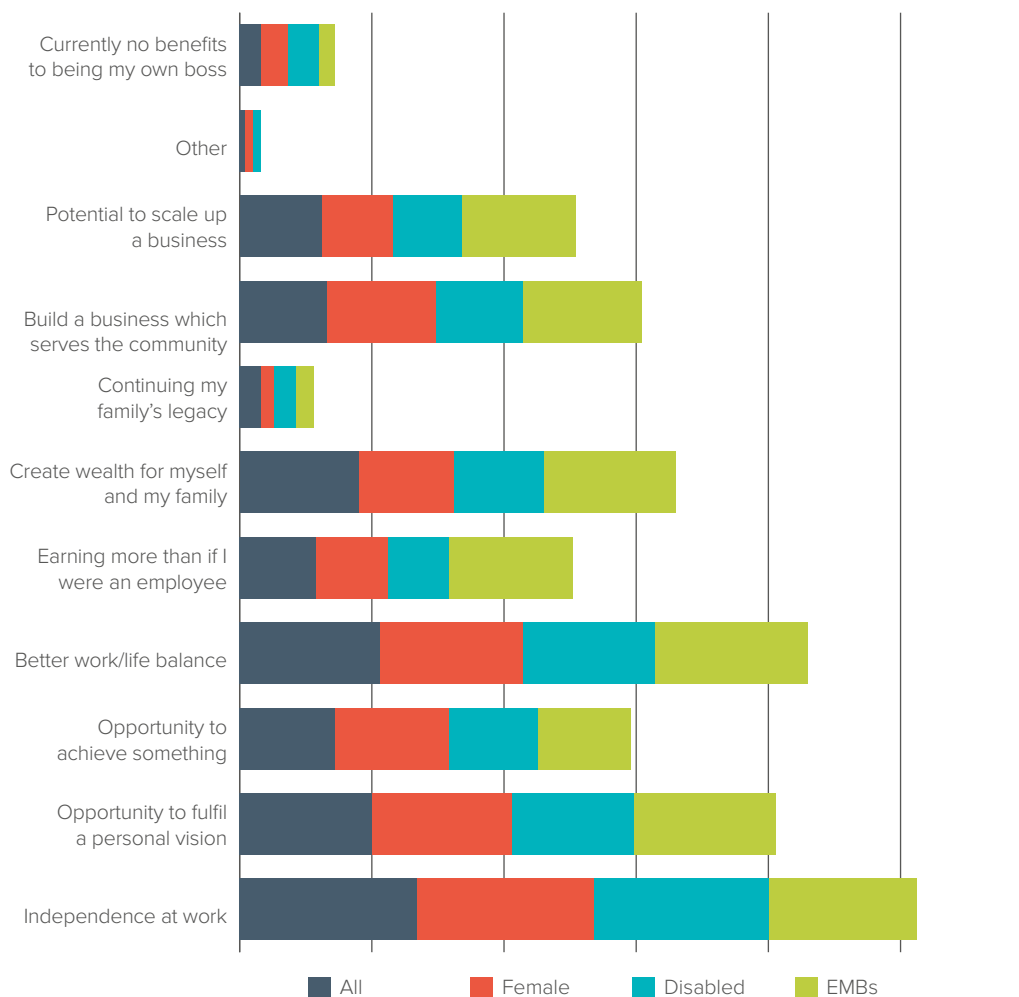
**“It enables me to take time off as needed when I have an endometriosis flare up without risking losing my job.”**

FSB member, Wholesale and Retail, Wales

Reasons as to why entrepreneurs choose to start a business varies by demographic, with 43 per cent of female entrepreneurs more likely to state having the opportunity to achieve something and get recognition for it than the average (36%). Ethnic minority entrepreneurs are more likely to see a benefit in earning more than if they were an employee in the same or similar line of work (47% compared to an average of 29%). Concerningly, 12 per cent of disabled entrepreneurs currently see no benefit in being their own boss compared to an average of eight per cent.

**Figure 1: Benefits to being your own boss by minority groups**

Source: FSB, Self-employment and start-up survey, 2023



With an increasing value placed on work flexibility, entrepreneurship provides individuals with the flexibility to tailor their work hours, facilitating an easier balance between professional and personal commitments. This is particularly true of business owners aged 36 to 40, with over two thirds (69%) stating the ability to balance work and family life as a benefit; potentially as this is the age group with caring responsibilities for both young and old family members.

**“I found that transition easy between being a full-time employee and a business owner – I was highly motivated to get out of the bureaucracy, the constant duplication and focus on the wrong things. The weight was lifted when I went out my own – I was focused on clients rather than a random process put in place by bureaucracy.”**

**James Robinson, Managing Director at Hello Starling, Wales**

The potential to create wealth for oneself and one’s family, is cited by 45 per cent of respondents, emphasising the economic empowerment associated with being your own boss. However, it is a benefit more often identified by male entrepreneurs (49%) than female entrepreneurs (36%). More women, on the other hand, find benefit in building a business which serves the community/ create a positive social impact (41% vs. 30% men).

**“I decided to become self-employed because I wanted a better work life balance. As a single parent, it was important for me to do things like be able to collect my son from school. I can do what I want, when I want, and work with whoever I want. And it is great.”**

**Grace Graham, Professional Services, London**

Those that have started a business less than three years ago, plan to start or are in the process of starting a business are more likely to recognise the benefit of creating wealth for themselves and their family (54% vs average of 45%) and see the opportunity to fulfil a personal vision (76% vs average of 50%).

**“I love the freedom it gives and the opportunities for growth. I was previously a lawyer and the corporate treadmill of getting to partnership in a law firm was exhausting. Owning your own business is stressful and leads to sleepless nights as well as not paying yourself sometimes but it’s fantastic to be giving yourself a goal and giving people a future.”**

**FSB member, Commercial Cleaning, South West England**

This cohort of entrepreneurs is also more likely to see building a business which serves their community (51%vs 33%) and potential to scale up a business as a benefit (47% vs 31%) to starting a business. These two factors should not be viewed in isolation but as a combination. Entrepreneurs based in the East Midlands or Northern Ireland for instance are more likely to state they see benefits in serving community (36% and 38% respectively) and potential scale up (45% and 42% respectively) as a benefit. This highlights the importance of departments such as the Department for Business and Trade (DBT) and Ministry of Housing, Communities and Local Government (MHCLG) working together on local growth and place-based interventions especially considering DBT's 2024 Industrial Strategy.

The lack of inclusivity may also act as a factor pushing individuals out of employment. FSB research shows disabled entrepreneurs (26%), women (22%), and ethnic minority entrepreneurs (19%) state they set up their business because of a prior negative experience within the workplace (compared to 17% on average). There is structural, historical bias that favours certain individuals - this affects many marginalised individuals within the workplace.<sup>1</sup>

As our research suggests women are more likely to say they have started their own business due to a previous negative experience in the workplace than men (14%). This factor is also highlighted by *Uncertain Futures*, an art and research collaboration based in Manchester, the project focuses on intersectional inequalities facing women aged over 50.<sup>2</sup>

**Women described situations where they had been called “mumsy” (Áine, aged 57) or as a “bit too old” (Georgina, aged 57) which made these women feel undervalued and less confident. This ultimately denied them valuable work opportunities.**

Concerningly, this continues despite efforts by many as FSB's evidence suggests one third (33%) of those who set up a business in the last three years, plan to start or are in the process of starting report a negative experience within the workplace.

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1 Department for Business and Trade, Race in the workplace: The McGregor-Smith Review, February 2017, <https://www.gov.uk/government/publications/race-in-the-workplace-the-mcgregor-smith-review>

2 Uncertain Futures, accessed October 2024, <https://uncertainfuturesproject.co.uk/>

## Start-ups

The UK's self-employment population shrank significantly due to the impact of the Covid pandemic. Reversing this trend needs to be a central plank to the new Government's 'growth mission.' The creation of new businesses has the potential to generate substantial economic growth. The success of startups often leads to the creation of new industries, attracting investment and attracting talent, further stimulating economic growth.

We need to value equally and focus support for those that wish to start a business in the intensive economy as well as those who wish to start a business in the 'everyday economy'. This is highlighted in the Global Entrepreneurship Monitor (GEM) 25-year review:

**“Over this period [1999-2024] the emphasis has been on fast-growth, high-growth and scaling as the watch-words of business support policy. Yet these ‘high-growth’ firms represent a tiny proportion of the total number of people who successfully set up businesses or are self-employed or who expand existing businesses. It is this mass of “everyday entrepreneurs” who generate the employment, the productivity, the innovation and the economic growth and regeneration of their communities, their regions and their countries. Any commitment by governments to supporting this group of people simply reflects the vital role that these people play in the competitive future of any country.”**

In 2023, GEM estimated that 10 per cent of the working age population in the UK had started or were running a new business.<sup>3</sup> This was around six per cent two decades ago. A further 11.7 per cent of the UK's working age population stated they intended to start a business in the next three years, which is almost double what it was a decade ago.

Despite some long-term positive trends in the amount of entrepreneurial activity in the UK, research from GEM has identified some concerning findings. GEM found that the overall quality of the UK entrepreneurial environment, which was ranked as satisfactory in 2020, has since “declined slowly, moving further and further away from satisfactory.”<sup>4</sup> It now places the UK 22nd of the 49 economies participating in the GEM National Expert Survey.

**“In the 25 years that the GEM UK team have been collecting the views of our national experts the most disturbing conclusion to be drawn is that many of the deficiencies they have identified with the entrepreneurial ecosystem at the start of the millennium remain today.”**

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3 Global Entrepreneurship Monitor, The UK's Entrepreneurial Journey over a quarter of a century: United Kingdom 2023/24 Monitoring Report, July 2024, <https://www.gemconsortium.org/economy-profiles/united-kingdom-2>

4 Global Entrepreneurship Monitor, GEM 2023/2024 Global Report: 25 Years and Growing. 2023/2024 Global Report, February 2024, <https://www.gemconsortium.org/report/global-entrepreneurship-monitor-gem-20232024-global-report-25-years-and-growing>

According to the GEM, 47 per cent of UK adults agree that “there are good opportunities to start a business in the area where I live.” However, of those adults identifying good opportunities, 53 per cent say that they would not start a business for fear it might fail – this has been increasing since 2016, it remains “a formidable obstacle to new startups.”<sup>5</sup> GEM:

**“A higher proportion of women than men seeing good opportunities would not start a business for fear it might fail. Interestingly, the biggest perception gap [of all the countries GEM tracks] was in the United Kingdom, where 63% of those women seeing good opportunities would not start a business for fear it might fail, compared to just 44% of men.”**

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5 Global Entrepreneurship Monitor, The UK’s Entrepreneurial Journey over a quarter of a century: United Kingdom 2023/24 Monitoring Report, July 2024, <https://www.gemconsortium.org/economy-profiles/united-kingdom-2>

## Difficulties starting a business

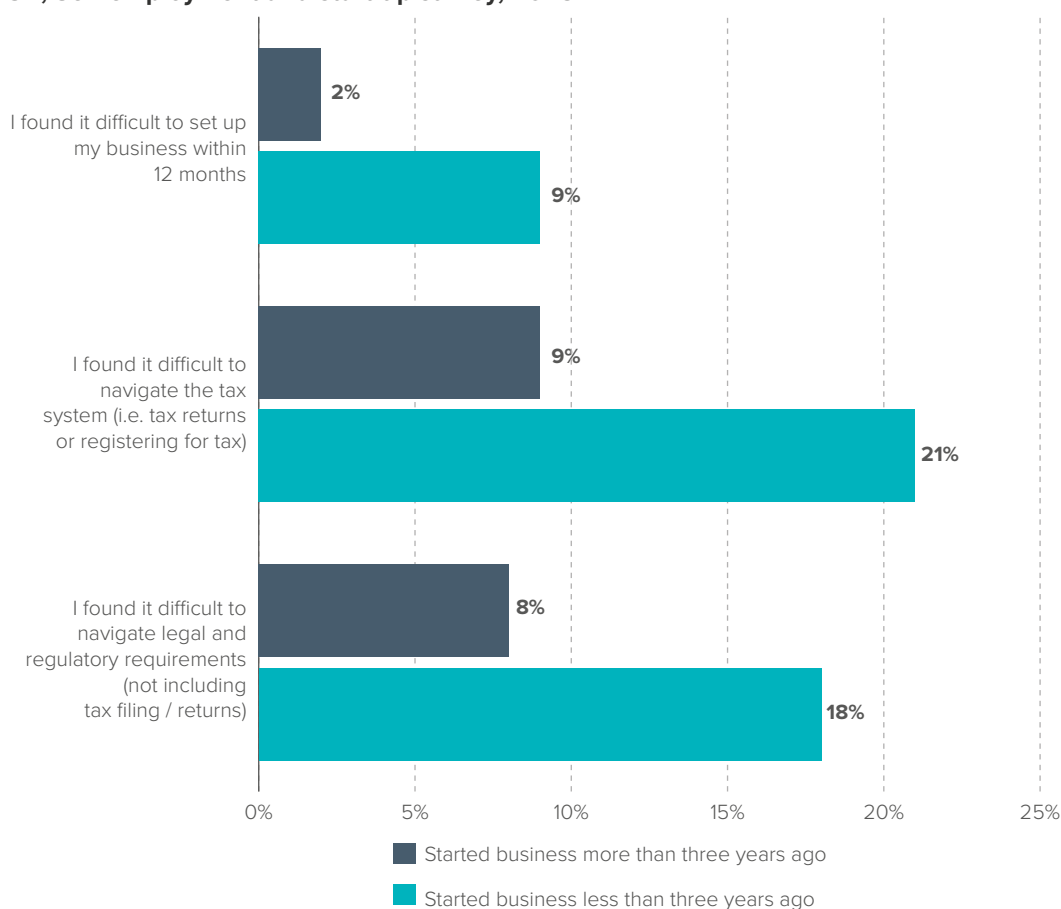
FSB research suggests it may have become more difficult to start and establish a business when comparing those that have been in business for three years or more to those that have started a business within the last three years, in the process of setting up a business or plan to in next 12 months. We define these groups as fully established businesses and new businesses respectively.

Figure 2 indicates that ‘new businesses’ say they find it more difficult to navigate the tax and regulatory system than those who have been in business for more than three years. This might explain why it seems to be taking longer for people to establish their business.

This corresponds with research from GEM which found that 50.1 per cent of adults in the UK, who are starting or running a new business, say that starting a business is more difficult than a year ago. This is the 13th highest out of 45 countries, up from 46.1 per cent the year before.<sup>6</sup>

**Figure 2: Challenges with starting a business, comparing those who started a business in last three years, in the process or plan to start in next 12 months to those who started over three years ago**

Source: FSB, Self-employment and start-up survey, 2023



6 Global Entrepreneurship Monitor, GEM 2022/2023, Global Report: Adapting to a “New Normal”, February 2023, <https://gemconsortium.org/report/20222023-global-entrepreneurship-monitor-global-report-adapting-to-a-new-normal-2>



## Enabling start-ups

A significant proportion of new businesses say they do not feel like they receive sufficient support, with challenges including lack of impartial support and advice (30%) and exclusion from Government support schemes (33%).

Over half (54%) of new businesses say free or subsidised mentoring would improve their ability to start or grow. This is compared to 31 per cent of all entrepreneurs. 47 per cent say that they would like more opportunities to network and 46 per cent say they want better access to growth hubs (compared to 23% and 21% respectively for all entrepreneurs).

Half (50%) of new businesses say that free or subsidised impartial business support advice would better enable them to start or grow their business. A consistent message is for support and advice to individuals that have run a business before.

“The start-up support put on by my local council was fantastic and I wish I knew about it when I first started. I got 10 hours free training from professionals with experience of starting up a business. Annoyingly though this was all during the day, it was tricky for me to access while also working a full-time job to pay the bills. The business support I received from my combined authority was more lacklustre, a lot of the offerings were training related. It’s probably good if you’re a small business with more than 10 employees but I work in a niche industry providing a niche service.”

Andy Sutton, Director of Access Composites, South West England

## Recommendations

### HM Treasury/HMRC should:

- **Double the trading allowance, from £1,000 of trading income to £2,000, to help more people have a smooth start to their side-hustle activity, promoting greater levels of entrepreneurial activity.** Two-thirds (67%) of entrepreneurs were previously employed in full time jobs, an increasing trend has been for individuals to work on a side hustle while in employment and then quitting their jobs to run their businesses full time. Increasing the trading allowance would help many new entrepreneurs become more established before making this leap and reduce the fear of failure that holds up entrepreneurial activity.

### The Department for Business and Trade should:

- **Set itself a target to have more businesses in the UK by the end of this Parliament than in 2020; this would require a target of six million SMEs in the UK by January 2028, 500,000 additional SMEs than there are currently.** The number of businesses in the UK is still significantly less than pre-pandemic levels. In 2020, there were 6.0 million small and medium sized enterprises in the UK compared to the 5.5 million in January 2024. Encouraging more businesses to start is central to achieving economic growth. There are an ever increasing number of people with an entrepreneurial mindset in the UK, unleashing their ambition regardless of their background needs to be a priority for the Government.
- **Launch a Help to Start programme that provides free support for those considering starting a business or have started in the last three years. Mentoring, peer-to-peer support as well as easy to access information, including on access to finance, should be the core components of this scheme. This programme could feature within the department's Help to Grow campaign.** This could be based on the recently launched Go Succeed programme in Northern Ireland for start-ups, which offers 13 hours of one to one advice from experts in different sectors, master classes, grant funding and peer-to-peer support.<sup>7</sup> The dedicated business expert(s) work with individuals to develop a business idea, create a tailored plan, and can be contacted at any stage for advice. A host of learning materials are also available as well as business webinars and events.
- **Update their annual official statistics 'Business population estimates for the UK and regions' so that they include a more granular regional breakdown of the number of businesses at a local level, by employment size bands.** As well as this dataset, the Government annually publishes the number of businesses that are registered for VAT and/or PAYE, which estimates that there are 2.72 million businesses in the UK. This is much lower than the 5.5 million estimated in the business population statistics. Yet as the statistics based on the VAT and/or PAYE registrations provides a breakdown on the number of enterprises in districts, counties and unitary authorities within region and country by employment size bands, these statistics are much more likely to be used by local authorities. With the Government committed to local growth plans, it is imperative that local authorities understand the true number of businesses in their local area rather than just the top half of business population.

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7 Go Succeed: NI Business Support, Go Succeed Start, accessed July 2024, <https://go-succeed.com/start/>

## New Enterprise Allowance (NEA)

The New Enterprise Allowance was introduced in April 2011 and ended in December 2021, during that time, there were 161,000 businesses set up through the NEA programme by 157,000 individuals.<sup>8</sup> The programme provided support to unemployed people who wanted to start their own business in Great Britain.

**“In addition to its general success at supporting benefit claimants into self-employment, the NEA was particularly effective at helping older people and people with a disability out of worklessness. Of the 157,000 businesses set up through NEA, people over the age of 50 started more than 36,000 (23%) and disabled claimants started more than 33,000 (21%).”**

It also supported people who were self-employed and receiving benefits to develop their business. Participants received support from a business mentor and accessed financial support. The scheme has widely been deemed as successful, including by the Work and Pensions Select Committee.<sup>9</sup> Despite this success, the forerunner scheme, the Enterprise Allowance during the 1980s was much more successful and assisted 103,000 people per annum at its peak.<sup>10</sup>

**“I started my business in 1987. Enterprise Allowance removed quite a lot of the risk from when I started my business as I’d given up my salary and had a family and a mortgage, so I felt the Enterprise Allowance had gone part way in contributing to what I had lost. It played some part in me making the decision to start the business. The business wasn’t going to make money in the early stages so instead of making bigger losses that I would have had to fund out of borrowing, Enterprise Allowance took the sting out of it. I think frankly it meant the banks were more likely to lend to me anyway because they knew I was unlikely to be drawing the same amount of money out of the business. I did find it a bit clunky and bureaucratic it wasn’t the easiest thing to apply for and it felt like charity, this was an element I didn’t like. Instead of saying here is a grant to encourage you to take the chance to start a business it felt like a handout which is quite negative and puts a lot of people off. Now many people are starting businesses via a side hustles and people need a year to fully establish themselves in business. The best combination would be some kind of grant, mentoring (I wish I had this) and access to subsidised borrowing.”**

**Martin McTague OBE, FSB National Chair**

8 Department for Work and Pensions, New Enterprise Allowance statistics: April 2011 to December 2021, June 2022, <https://www.gov.uk/government/statistics/new-enterprise-allowance-april-2011-to-december-2021>

9 Work and Pensions Select Committee, Plan for Jobs and employment support, July 2023, <https://committees.parliament.uk/publications/40930/documents/200444/default/>

10 Institute for Employment Studies, Who Receives Enterprise Training or Small Business Work Experience?, January 2009, <https://www.employment-studies.co.uk/system/files/resources/files/wp21.pdf>

The decision to scrap the NEA and for the scheme to close is particularly difficult to comprehend, as one of the only methods of support for the self-employed on benefits. If policymakers are committed to supporting all entrepreneurs irrespective of background, then the scheme should be replaced with a more ambitious equivalent, providing additional mentors and increased weekly payments.

“I was in receipt of the New Enterprise Allowance. It really helped people like me who always wanted to become self-employed, but at that point, I ran out of savings. The New Enterprise Allowance really helped me because they gave me a mentor who assisted me in writing a business plan. I always started writing a business plan, but I never finished it. And eventually, with the help from my mentor, I finished the business plan. I then got a business loan with the support of my mentor. He held my hand every step of the way. Having a mentor was amazing. I really think that reintroducing the new enterprise allowance would really, really help.”

Grace Graham, Professional Services, London

## Recommendation

The Department for Work and Pensions should:

- **Introduce an New Traders Allowance for jobseekers, particularly disabled people, which would offer tailored support and increased payments to help them transition into entrepreneurship. The new scheme, which would be a more effective and ambitious replacement for the New Enterprise Allowance (NEA), should be available to all of those not currently in employment.** The scheme should provide tailored support for jobseekers depending on their benefits and personal circumstances. For example, to promote disabled entrepreneurship, the new and boosted scheme should ensure Disability Employment Advisors are appropriately trained to enable self-employment and encourage schemes like an NEA replacement to disabled jobseekers.

## Ex-forces and starting a business

Setting up and running your own business requires courage, determination and a strong work ethic. These are attributes which service leavers have in spades, and why self-employment is a route well worth considering by those coming towards the end of their time in the Armed Forces.

### Encouraging veterans to start a business

Assisted by the support of X-Forces Enterprise, Tyler Bloomhill, who served in the Royal Army Medical Corps, went onto start his own waste management business, KwikTip Ltd. Despite limited knowledge to start with on the day to day running and growing of a business, Tyler, from North West Leicestershire, has taken KwikTip from strength to strength. He now plans to further grow the business through the service leavers community, involving veterans in running their own branches.

The business specialises in the collection, transport and disposal of general and hazardous waste for businesses and households. With his passion for making a social and environmental difference and a family background in enterprise, starting a business in this area made a lot of sense to Tyler.

Funding of just under £10,000 for Tyler's business was secured through X-Forces Enterprise, a business support partner to the Government's Start Up Loans scheme. He also attended a range of workshops and masterclasses offered by the organisation, in which he developed his skills in business start-up, budgeting, cashflow, marketing, and more. His favourite part of being self-employed is that it requires constant personal growth in order to achieve business growth. As Tyler puts it: "Remember that every day is a school day – you need to be willing to learn and make mistakes. Don't be afraid to ask for help. Have perspective and patience. Never blame or take extreme ownership."

*This case study is an abridged version of a case study from X-Forces Enterprise, the leading organisation in the UK that supports entrepreneurship in the armed forces community, the full case study can be found online [here](#).*

## Business growth

Ensuring entrepreneurs have the levers to enable them to grow is a crucial driver of economic prosperity. Encouraging businesses to grow is important not only for the additional jobs that they would create, but for the subsequent increase in economic dynamism, investment and productivity that are essential to boosting UK GDP.

It is well documented that productivity has been stagnant in the UK since the 2008 financial crisis.<sup>11</sup> This is often blamed on the so-called 'long tail' of unproductive firms. The OECD's 2020 assessment of the UK economy outlined a productivity gap between firms, with the UK having a larger than average number of firms with low productivity levels.<sup>12</sup> Strategic policy interventions are necessary to enable entrepreneurs to succeed.

The Global Entrepreneurship Monitor categorises those businesses that have existed for more than three and a half years as being established businesses.<sup>13</sup> FSB research shows that over half (53%) of entrepreneurs who have been established for three years or more intend to undertake at least one of the below actions in the next three years to grow their business. These include:

- 33 per cent plan to recruit more workers
- 31 per cent plan to develop a new product(s) (goods or services) to market/sector
- 15 per cent plan to export goods/services outside of the UK/Ireland
- 13 per cent plan to start and/or grow a business in digital and/or technology sector

Entrepreneurs are located throughout the UK so enabling them to grow and succeed is a way to enhance local places and spread opportunity. The recruitment of more staff, exporting and innovation are important factors to grow a business.

### Entrepreneur to employer

Small businesses have a long history in not only driving job creation but also supporting individuals from worklessness into employment. Many entrepreneurs that become employers seek to provide a culture that breaks down barriers and fosters opportunities due to their own experience of the workplace. Supporting sole traders to take on their first employee is important as a facilitator for growth but also as SMEs tend to hire from disadvantaged groups.

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11 For instance, see here: House of Commons Library, Productivity: Key Economic Indicators, May 2024, <https://commonslibrary.parliament.uk/research-briefings/sn02791/>

12 OECD, OECD Economic Surveys: United Kingdom 2020, October 2020, [https://www.oecd-ilibrary.org/economics/oecd-economic-surveys-united-kingdom-2020\\_2f684241-en](https://www.oecd-ilibrary.org/economics/oecd-economic-surveys-united-kingdom-2020_2f684241-en)

13 Global Entrepreneurship Monitor, GEM 2023/2024 Global Report: 25 Years and Growing. 2023/2024 Global Report, February 2024, <https://www.gemconsortium.org/report/global-entrepreneurship-monitor-gem-20232024-global-report-25-years-and-growing>

**“I hire lots of people with mental health issues, or those coming out of school without reading and writing. When I first started a few years ago, I built them up, gave them training and promoted lots of them, who are still with me. But as it’s getting harder to hire, these opportunities will no longer be there.”**

**FSB member, Commercial Cleaning, South West England**

Entrepreneurs in Northern Ireland are most likely to say they intend to recruit more workers within the next three years with half (50%) saying so compared to 43 per cent of those in Wales and less than a third in England and Scotland (30% and 28%).

Among English regions in the UK, over two-fifths of entrepreneurs in the East Midlands say they intend to recruit more workers within the next three years. Around a third (34%) of entrepreneurs in London, the North West, and Yorkshire and The Humber and the North East say that they intend to recruit more workers in that time. Less than a third of entrepreneurs in the East of England (27%), South West (24%) and the West Midlands (22%) say they will do so.

**“It’s crazy how expensive it is to hire and employ people. The added costs on top of the pay have a huge knock-on impact. These are all important but it’s not conducive to growth. If it was cheaper to employ people, then I’d employ more people. If we wanted to oil the country’s economic wheels, making it easier to employ is the lever you should pull.”**

**James Robinson, Managing Director at Hello Starling, Wales**

Hiring for the first time can be highly challenging. Three in twenty sole traders say deciding to employ someone for the first time is a challenge. There are several barriers to business owners from hiring for the first time. There are more tangible issues related to cost of cost and administration. The IPPR, for instance, outlines the following challenges faced by these business owners:

**“When an employer is looking to take on an employee, they need to spend time on recruitment, drawing up a job description and interviewing potential employees. Depending on the nature of the role, this can take up a significant amount of time, particularly for the smallest businesses which are less likely to have access to human resources (HR) expertise in-house or to be able to afford external advice. Many firms outsource this work to professional consultants.**

**“In addition, if a sole trader is taking on their first employee, they also need to fulfil particular regulatory obligations. These include purchasing employers’ liability insurance, registering as an employer and setting up or outsourcing a PAYE payroll system.”<sup>14</sup>**

14 IPPR, Small firms, giant leaps: Small businesses and the road to full employment, April 2014, <https://www.ippr.org/articles/small-firms-giant-leaps-small-businesses-and-the-road-to-full-employment>

In addition, the cumulative cost of employment can also act as barrier to some when taking on their first employee. For more established businesses, difficulties hiring additional staff can also be a significant barrier to growth.

**“It is difficult for me to scale up and grow without reliable staff who turn up for the job. I used to be able to pick up new contracts easily but now I spend so much time thinking about staffing and recruitment and it’s tricky. As it gets harder to hire reliable staff, I spend all my time, thinking do we bother trying to grow or expand? It’s awful.”**

FSB member, Commercial Cleaning, South West England

As well as the cost and additional regulations, entrepreneurs also identify barriers to employing for the first time that are more intractable and psychological.

**“Hiring someone for the first time is the scariest thing I’ve done as a business owner. I kept putting it off as the person would be reliant on my business and I have someone’s livelihood in my hands. It’s a massive responsibility.”**

Philip McCready, Military Incorporated, North East

## Recommendations

**HM Treasury should:**

- **Commit to increase the value of the Employment Allowance so it rises in line with increases in the National Living Wage. Small businesses, often face large difficulties in recruiting, in particular when hiring for the first time.** Considering that the smallest businesses employ more people in regions/nations outside of London and the South East and that small businesses hire a significant number of people disadvantaged in the labour market, encouraging more to hire is crucial in providing more employment opportunities.



**The Department for Work and Pensions should:**

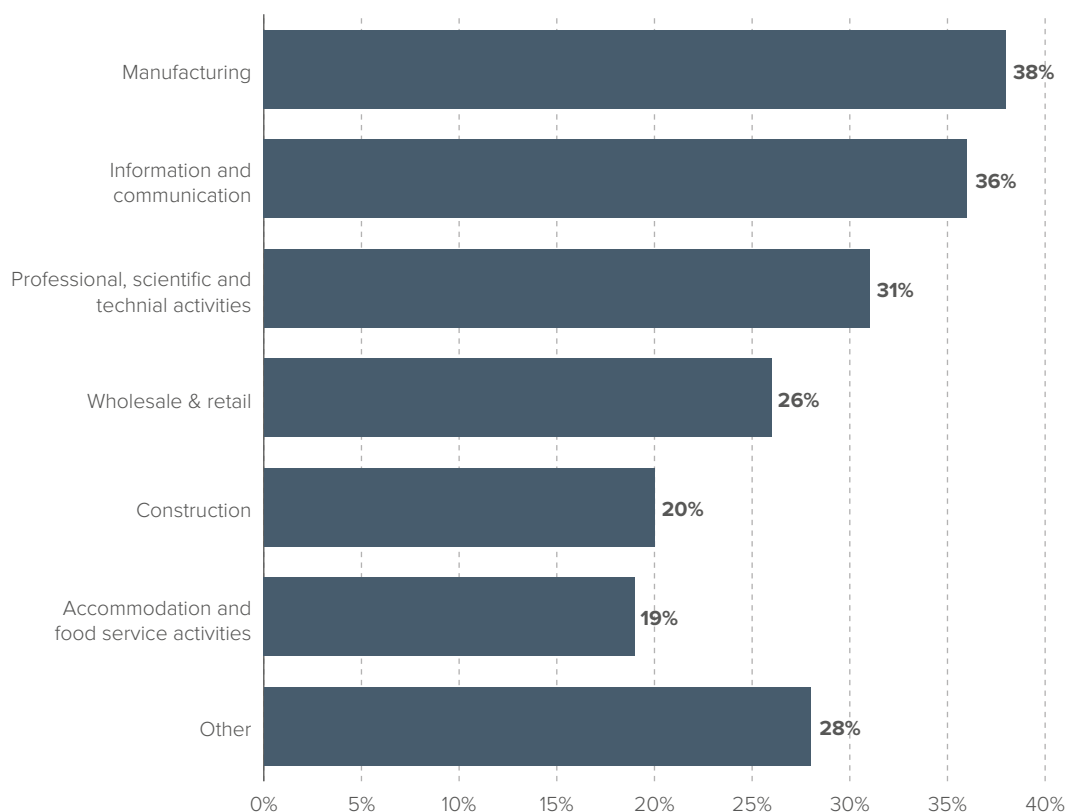
- **Provide funding for local authorities to introduce schemes that support sole traders to make a first hire, when employing someone who was previously unemployed or economically inactive. This could be initially targeted to geographic areas with high levels of the working population out of work.** Inspiration could be taken from a scheme introduced by Durham County Council’s Employability Durham scheme that gives employers a £1,000 subsidy for employing a participant in the scheme for a month and a further £1,000 after six months.<sup>15</sup> Additionally, the scheme provides employers support with recruitment and on-going support when the new recruit is in work.

**Tech adoption and new product development**

29 per cent of entrepreneurs intend to develop a new product for their market or sector in the next three years. Figure 3 indicates that although entrepreneurs in sectors such as manufacturing, information and communication and professional scientific are more likely to develop new products, this is more evenly spread than one might assume.

**Figure 3: Entrepreneurs planning to develop a new product for their market or sector in the next three years, by sector**

Source: FSB, Self-employment and start-up survey, 2023



15 Durham County Council, Employability Durham - support to plan for your future, accessed July 2024, <https://www.durham.gov.uk/employability>

Entrepreneurs are very capable at developing new products regardless of their sector. This is despite limited availability of government support in this field for many entrepreneurs. 37 per cent of those intending to develop a new product in the next three years say they feel excluded from government support schemes because the eligibility rules are based on the number of employees.

FSB's *Tech Tonic* report found 40 per cent of sole traders say that they did not apply for government schemes as their business was too small, which can be compared to 25 per cent of business owners who hire between one and nine individuals.<sup>16</sup> Evidence also indicates that the newest businesses are more able and willing to adopt technology within their business. According to GEM, 61.5 per cent of those involved in early-stage entrepreneurial activity are expecting to use more digital technologies to sell their products or services in the next six months, a relatively high score globally. However, the same survey found that only 28.9 per cent of established businesses (set up for 3.5 years or more) were expecting to use more digital technology in the next six months.<sup>17</sup> Other countries do not have such a significant difference in percentage.

## **Start-ups and growth in digital and tech**

13 per cent plan of entrepreneurs say they plan to start and/or grow a business in digital and/or technology sector. The East Midlands saw the highest rate of entrepreneurs intending to start or grow a business in the digital/tech sector at 20 per cent, in contrast with the neighbouring West Midlands at 9 per cent. This reflects an intentional approach to fostering innovation in the East Midlands, typified by Innovative Leicestershire.

An initiative led by the Local Enterprise Partnership and grounded in a comprehensive strategy, Innovative Leicestershire takes a multi-pronged approach, including through an annual festival showcasing innovation and seeking to capitalise on the complementary expertise of a handful of larger businesses and a strong network of SMEs. Initiatives like these point to the potential for locally-driven, joined up approaches to create an environment in which innovative small businesses can flourish.

Northern Ireland has historically had a lower proportion of 'innovation active' businesses than the UK overall. It is notable, then, that 21 per cent of entrepreneurs in Northern Ireland intend to start or grow a digital/tech business in the next three years, which is the highest percentage of all the nations in the UK. This shows an appetite for innovation that has the potential to boost innovation in Northern Ireland. While data from 2022 shows over 750 startup support programmes across the UK,<sup>18</sup> our qualitative research suggests that the landscape for support can be confusing and overwhelming with entrepreneurs left unsure who to contact to access support.

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16 FSB, *The Tech Tonic: Shifting the ground on tech adoption and innovation in small businesses*, August 2023, <https://www.fsb.org.uk/resource-report/the-tech-tonic.html>

17 Global Entrepreneurship Monitor, *GEM 2023/2024 Global Report: 25 Years and Growing. 2023/2024 Global Report*, February 2024, <https://www.gemconsortium.org/report/global-entrepreneurship-monitor-gem-20232024-global-report-25-years-and-growing>

18 Centre for Entrepreneurs, *Incubation nation: The acceleration of UK startup support*, September 2022, <https://www.centreforentrepreneurs.org/research/report/incubation-nation/r/recqS0zPeG1xcTAjG>

## Recommendations

### The Department for Business and Trade should:

- **Develop a tech adoption and digital skills diagnostic tool.** This would provide small business owners and the self-employed with advice on what business processes they could potentially automate and advice/signposting to encourage them to do so. Within this tool, there could be an assessment of a company's current and future digital skills needs and what training would help them and/or their employees.
- **Introduce digital audit vouchers for small businesses and the self-employed to enable more entrepreneurs to think about how they are using data and technology, vouchers should be introduced to enable them to audit their tech needs and what technology they should consider adopting.** Safeguards should be put in place to help reduce the partiality of the firms conducting the audit. This could include the auditing organisation not being able to sell its own products or being required to reimburse the voucher cost if the small company ends up buying its products. This scheme could be piloted before full roll out.

## Exporting outside of the UK

14 per cent of entrepreneurs in the UK say that they plan to export products outside of the UK or Ireland in the next three years. This is much higher among those about to start their business or about to make their first hire, with 22 per cent of these entrepreneurs planning to export in the next three years. This indicates the interlink between exporting and business growth.

Entrepreneurs in Northern Ireland are also much more likely than those in other UK nations to say they intend to export services outside of the UK and Ireland in the next three years. Almost a third (31%) of entrepreneurs say they will export outside of the UK and Ireland compared to 14 per cent of those in Wales and England, and just eight per cent of small businesses in Scotland.

Among English regions in the UK, entrepreneurs in London are the most likely to say they intend to export goods or services outside of the UK or Ireland within the next three years with over a fifth saying they will do so (22%) compared to only one-in-ten (10%) in the West Midlands as well as Yorkshire and the Humber, and the North East.

FSB's *Unlocking Opportunity* report found “over the whole 16-year period to 2018, ethnic minority-led businesses had higher levels of exports than non-ethnic minority led businesses in every region.” The latest FSB evidence suggests this trend is continuing, with 20 per cent of ethnic minority led businesses stating they intend to export goods or services in the next three years compared to 13 per cent of non EMBs. The Centre for Research in Ethnic Minority Entrepreneurship, *Time to Change* report stated:

**“Once ethnic minority firms have got through the startup phase of activity, they perform exceptionally well in terms of future growth and exporting, suggesting the ‘shortfall’ in numbers resulting from a higher enterprise ‘churn’ may have a measurable economic ‘drag’ on the UK economy as a whole, which could be addressed by policy action.”**

This also varies by sector, with a third (32%) in manufacturing planning to export and one in five (22%) working in information and communication. 37 per cent of those intending to export products outside of the UK or Ireland in the next three years say they feel excluded from government support schemes because eligibility rules are based on the number of employees.

FSB's *Customs Clearance* report found that those who have been in business for less amount of time are more likely to indicate that the major challenge with exporting is the lack of clear guidance rather than costs.<sup>19</sup> In the same survey, we found that over half (52%) of sole traders say that a lack of clear guidance is one of the main challenges with trading goods outside of the UK.

## **Encouraging established businesses to grow**

Established small business owners (those running for three or more years) also need support to grow. Extra support with skills and impartial advice could be particularly helpful for those businesses moving from start-up phase to being an established business. 52 per cent of those who have owned their business for three to four years say that more access to training would be helpful to grow their business. 58 per cent of these individuals say that impartial business support or advice would be of assistance for them to grow.

**“I’m currently a sole-trader running a tutoring business. I didn’t have big ambitions, but through an FSB referral, I recently went through hours of business coaching and it made me think why not. The coach, who previously ran a factory, made me really think through my products on offer, what investment I needed to make to be competitive, and what is my USP. More than anything though it built my confidence.”**

Helen Lewis, Owner of Helen Lewis Tutoring, South East England

19 FSB, *Customs Clearance: The road to seamless trade for small businesses*, March 2023, <https://www.fsb.org.uk/resource-report/customs-clearance.html>

**Figure 4: Support that established businesses say would improve their ability to grow their business**

Source: FSB, Self-employment and start-up survey, 2023

	Plans to export and/or innovate and/or recruit in next three years	No growth plans
Free or subsidised impartial business support/advice	44%	33%
Free or subsidised mentoring	38%	23%
Free or subsidised training for the self-employed	33%	26%
More opportunities to network	29%	13%
Better access to Growth Hubs	29%	9%

“Through a council scheme, I was working with someone with private sector experience who provided eight hours free support. This was really useful. He directed me to a local government grant scheme that would be very helpful for my business, though I need to find a significant amount of upfront funding to do this.

“It always seems like there is a catch with government schemes or they’re simply a tick box exercise. The support from my business advisor stops after these sessions and our next check in call is in a year’s time. The grant would work so much better if I could pay in monthly instalments or if there was more flexibility in the council’s approach.”

Philip McCready, Military Incorporated, North East

FSB research suggests local government schemes are preferred when they connect business owners to individuals with relevant business experience rather than government officials giving the advice directly.

“I have used my local business support organisation and never again. It was absolutely useless. The business coaches hadn’t run a business themselves. They were telling me what to do despite no lived experience and were just parroting their way through. Some of the workshops were really generic and basic so I sacked it all off.”

“A lot of being an entrepreneur is flying by the seat of your pants - it’s going by gut feeling and not how civil servants think. These are the wrong people trying to help businesses grow. There’s a different scheme funded by my local authority that two of my peers have used with someone with business experience using the Entrepreneurial Operating System, which has dramatically changed my friends’ businesses.”

James Robinson, Managing Director at Hello Starling, Wales

## Recommendations

The Department for Business and Trade should:

- **Monitor and publish the level of publicly funded business support that is delivered by the private sector and those with experience of running a business. Consideration should also be given to issuing targets where the overwhelming majority of the support on offer is given by the private sector or by individuals with experience of running a business.** FSB receives consistent feedback that entrepreneurs want to receive business advice and support from those with lived experience. We have previously suggested establishing a separate body ‘Business England,’ which would provide a framework for local authorities on business support and monitor performance.
- **Incentivise Growth Hubs to reach out to more self-employed people and capture data on their engagement.** 22 per cent of the self-employed in England say improved access to growth hubs would improve their ability to start/grow their business. This percentage is much higher proportion with those looking to recruit, innovate, or trade. Growth Hubs are a useful first port of call for small businesses looking for support and advice to grow their business and increasing access for the self-employed would enable more to expand their business.
- **Maintain Help to Grow: Management and the recently launched Help to Grow: Management Essentials.** Despite limited uptake, those small businesses that have taken up a place on Help to Grow: Management have demonstrated highly positive outcomes. The launch of a shorter, more bite size course, Help to Grow: Management Essentials that is open to all small businesses and the self-employed is a welcome development. Schemes such as these need time for more self-employed and small business owners to be aware of them.

## Who are the self-employed?

This report covers those who work for themselves, they are to put it simply not employed by anyone. There isn't a particular label that can be attributed to this group to define. This includes sole traders, freelance contractors, partners in small partnerships, as well as sole directors in limited companies.

When people set up a business it is important that they adopt the most appropriate legal structure to help meet their objectives and needs of the business. Those who are not employed by someone else are categorised by rules which define their tax and employment rights. From a business owner perspective, employment status matters because it determines the income tax and national insurance contributions (NICs) on their earnings, as well as their statutory employment rights.

The concept of a 'side hustle' has become a fashionable term, many entrepreneurs started their businesses while in employment. However, the new number of people working and running a business has grown in recent years. The current business framework doesn't reflect the changing world of work which has enabled many people especially young people, women, ethnic minorities and those with low incomes to start in business.

### Sole traders

A self-employed person is often referred to as a 'sole trader'. Following welcome tax simplification and reduction measures taken at the 2023 Autumn Statement, sole traders making a small profit can voluntarily choose to pay NICs Class 2, while those with larger profits pay NICs Class 4 at two different profit bands. NICs confer the right to benefits and the self-employed get some benefits but, not the same benefits as an employee. They also pay income tax at the same rate as an employee. Twenty-one per cent of respondents state they are a sole trader. Working as a sole trader offers simplicity and versatility.

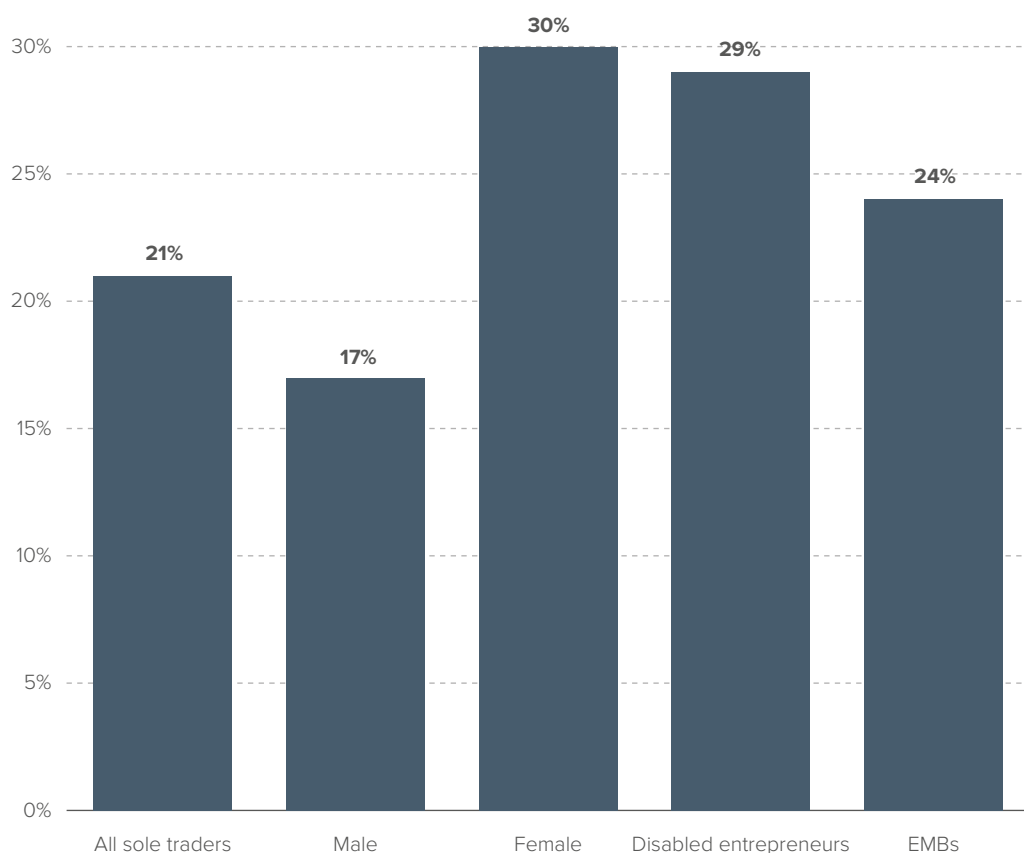
**“Being a sole trader is enjoyable; you know what your responsibilities are and know what to do and when. It's important to have a sense of what is a reasonable expectation on progress and not to burn yourself out. It can also be quite lonely so that's why networking can be really helpful.”**

Helen Lewis, Owner of Helen Lewis Tutoring, South East England

FSB research shows that more women (30%) than men (17%) operate as sole traders. Sole traders are also common amongst disabled entrepreneurs (29%) and ethnic minority businesses (EMBs) (24%). Those who have been in business under a year but no more than two years are more likely to operate as a sole trader (36%). The North West (30%) and Northern Ireland (30%) have the highest proportion of respondents stating they operate as sole traders followed by Wales (27%) and Scotland (26%).

**Figure 5: Sole traders**

Source: FSB, Self-employment and start-up survey, 2023





## Sector focus: construction

The Government's target to build 370,000 homes a year will have a significant impact on the many self-employed contractors that work in the construction sector.<sup>20</sup> An FSB member shares her thoughts on self-employment in the construction industry:

**“We are a carpentry business and have been trading for 24 years. We have eleven full time employees and at any one time we have around 30-40 subcontractors working for us on different contracts, who go away, work for someone else, and then come back. All our subcontractors operate under the Construction Industry Scheme (CIS) and they have a Contract for Services which is renewed periodically. We'd be happy to employ many of them, however, from their point of view the flexibility and the potential to earn more money is a big thing as they can make more money by moving from contractor to contractor.”**

**“Another big issue is that if we had to employ sub-contractors, as we don't control the sites, they would be twiddling their thumbs during low periods of activity and the client controls the timeline for the build plan. Essentially, they'd be paid less and would be less productive. The flexibility of paying people based on the difficulty of the work and the amount they're able to produce in a day is a very difficult model to replicate in employment. If there is a rapid increase in house building as forecasted, then we anticipate we would be quite busy. If there is pressure placed on housebuilders to build more homes, the rate of pay will have to increase because we'd need to attract people to the industry due to the skills shortage in trades such as carpentry.”**

**“My personal view is that the existing (CIS) system and use of self-employed subcontractors works well. We pay a rate that allows self-employed people to take holiday, to take sick leave. We have carpenters who earn 2-3 times the UK average salary, it is not an insignificant income. Also, they have the flexibility to say, 'the Olympics is on, I don't want to work today'. We train apprentices, however, once they are fully trained, they leave because they want to work on a self-employed basis.”**

**Katy Hall, SC4 Carpenters Ltd, South East**

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20 Ministry of Housing, Communities and Local Government, Deputy Prime Minister on changes to national planning policy, July 2024, <https://www.gov.uk/government/speeches/deputy-prime-minister-on-changes-to-national-planning-policy>

## Limited companies

A limited company is a company limited by shares, limited by guarantee and sole directors in a limited company. Limited companies are the most common legal structure used by FSB members, with 65 per cent stating they operate in this way. Of those who are incorporated as a limited company, the structure is more likely to be adopted by men (70%), than EMBs (62%), women (54%) and disabled entrepreneurs (53%).

A private company limited by shares is a legal entity which is separate and distinct from its members. It is owned by its members who hold shares in the company. It is managed by its directors in line with the provisions of the Companies Act 2006 (CA 2006) and the company's governing constitutional document, otherwise known as the articles of association.<sup>21</sup> When a person incorporates their business, they will become a shareholder in the business. They will also become a director but, this is separate to being a shareholder. A director is not necessarily an employee, if the director is an employee, they will only be so if they have a contract of employment.

**“My business is a limited company. I chose that business structure predominantly because it created the separation between my personal life and my business life.”**

FSB member, Business consultancy, North East England

FSB data shows that almost a quarter (23%) of respondents work as a sole director in a limited company. This form of legal structure is common amongst those who have been running a business for less than one year.

Sole directors in limited companies faced gaps in support during the pandemic. Despite FSB's lobbying efforts directors of limited companies paid by means of dividend income remained one of the highest profile groups of businesspeople excluded from direct Covid-19 support funding. There was and remains an assumption that individuals set themselves up as limited companies to gain tax benefits. However, this is rather simplistic view of entrepreneurship.

There are several factors which push individuals to set up as limited companies and should be fully understood by policymakers. For example, incorporating a limited company or other structure can sometimes be perceived as necessary for sole traders to meet the eligibility criteria for procurement due to the separation of personal and business assets it provides. By becoming a separate legal entity, a limited company can offer limited liability protection, demonstrate a more professional and stable business structure and offer evidence it can meet future requirements for liability insurance. In some private procurement processes this may be made a necessity by firms higher in the supply chains for suppliers to be incorporated.

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<sup>21</sup> LexisNexis, Private companies limited by shares, accessed October 2024, <https://www.lexisnexis.co.uk/legal/guidance/private-companies-limited-by-shares>

**“I set my business up as a limited company. I did that for the financial admin side of things – I wanted to have a structure in place where, if I did decide to grow, I have the foundations place. Equally, I had the experience of dissolving my husband’s company after he got sick. It being a limited company made things a whole lot easier, so when it came to me setting up my business, I knew what I wanted to do and how to do it.”**

Helen Todd, Business Consultancy, Northern Ireland

Limited by guarantee companies do not have shares or shareholders, they are controlled by one or more guarantors who manage the day-to-day activities. This structure is often adopted by social enterprises, such as a non-for-profit company or charity. FSB research shows that companies limited by guarantee are common amongst ethnic minority led businesses with ten per cent stating they operate in this way. This form of legal structure is most common in the North West (11%), East Midlands (10%), West Midlands (10%) and Northern Ireland (9%).

### **Partner in a limited partnership**

A partner in a limited partnership (LP) is a type of partnership with special characteristics that meets the requirements of the Limited Partnerships Act 1907 (the “1907 Act”). An LP must consist of two or more partners, who may be individuals, corporates or other entities with legal personality. At least one partner must be a general partner (there can be more than one general partner), with the remaining partners being limited partners. A person cannot be a limited partner and act as general partner at the same time.<sup>22</sup> Four per cent of respondents state they operate in this way.

### **Partner in an ‘ordinary’ partnership**

To establish a partnership, two or more persons must come together. Seven per cent of respondents state their business is set up in this way. An ordinary partnership is a partnership that is shaped according to the common objectives of two or more persons, where the partnership rights and partnership structure do not depend on the capital, where the partners are primarily and successively liable for the debts of the partnership with all their assets. FSB evidence suggests this form of business structure is more common amongst older businesses with over one in ten stating they have been in business as a partner in an ordinary partnership between twenty and forty-nine years.

22 CMS, Back to Basics | UK limited partnerships, October 2022, <https://cms.law/en/int/publication/cms-funds-group-back-to-basics-briefings/uk-limited-partnerships>

## Community Interest Companies

Our research shows that only one per cent say they operate as a Community Interest Companies (CIC). “A CIC is a limited company, with special additional features, created for the use of people who want to conduct a business or other activity for community benefit, and not purely for private advantage.”<sup>23</sup> Small businesses are agents of social change as evidenced by this FSB member from the East of England:

**“I started the art gallery as a sole trader in 2017 and converted it to a CIC in 2022. I have never taken a salary and have always reinvested any profits into the business, so the CIC structure made sense. It is run by me and volunteers, including the artists who exhibit and who are supposed asked to work in the gallery in return. The income comes from shelf fees from the artists and commission on any sales, plus any profit on artist-led workshops and some income from hiring out rooms for events. I also get a grant from a charitable foundation to run events a regular workshop for women who are suffering from social anxiety following the pandemic.”**

Joanne Bowes, Gallery owner, East of England

## The gig economy

The gig economy forms a part of the UK labour market. According to the CIPD, the gig economy accounts for just under half a million in the UK. The CIPD defines the gig economy as:<sup>24</sup>

**“a way of working based on people having temporary jobs or doing separate pieces of work, each paid separately, rather than working for an employer.”**

This research reflects FSB’s membership, a collection of small business and self-employed members from every nation and region of the United Kingdom (UK). We recognise that technological changes – in particular the advent of platforms have blurred the lines between worker and self-employed. False self-employment, particularly for those on low incomes must be addressed. Policymakers should be weary of wholesale changes to the current employment framework to resolve a relatively small number of cases in comparison to the wider labour market of ‘false self-employment’. That is not to say action should not be taken – rather that it should be proportionate, with a strong focus on transparency and enforcement.

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23 Office of the Regulator of Community Interest Companies, Community interest companies: forms and step-by-step guides, May 2024, <https://www.gov.uk/government/publications/community-interest-companies-business-activities>

24 CIPD, The gig economy, September 2023, <https://www.cipd.org/uk/knowledge/reports/gig-economy/>

## Recommendations

### The UK Government should:

- **Guarantee the freedom to contract remains, and employment status is not redefined to create a default assumption of an individual being a worker unless proven otherwise.** We recognise that technological changes – in particular the use of online platforms have blurred the lines between employee and worker. False self-employment, particularly for those individuals who have no choice, on low incomes, must be addressed. However, any redefining of worker status must be done with extreme care and must not have a detrimental impact on the genuinely self-employed who have chosen that status for themselves.

### HMRC should:

- **Review the IR35 regulations, with the aim of reducing complexity and improving understanding.** Focusing on simplifying the framework, reducing complexity, and improving understanding among small businesses and self-employed individuals, the overarching goal of this review should be to create a more transparent, fair, and supportive tax environment that fosters entrepreneurship, innovation, and economic growth.

## The impact of Covid

FSB welcomed efforts by UK and devolved Government's to keep small firms afloat throughout the crisis, through a combination of job support payments, grants, loans and numerous other mechanisms. While it is clear that a vast number of small businesses would not have survived the crisis without these support schemes, many entrepreneurs found themselves frozen out of the key support schemes for reasons relating to their legal status.

The small business population saw a reduction of nearly half a million over the course of the pandemic. 6.0 million SMEs in 2020 reduced to 5.5 million SMEs by 2022, as of 2024 that figure stands at 5.5 million.<sup>25</sup> Company directors were not eligible for the Self-Employed Income Support Scheme (SEISS) under the scheme rules, and although they might have been eligible for furlough, in practice they were unable to make use of the furlough scheme.

To benefit from furlough, at least for the first few months of the scheme, one of the requirements was that the furloughed individual spent no time whatsoever working on the business. If company directors had furloughed themselves there would have been nobody to ensure that the business's liabilities were met (e.g. to ensure other employees were paid, or to comply with tax or regulatory requirements) nor would there be anyone to chase invoices for money owed to the business.

**“As a Sole Director of a small business, I am not eligible for any support unless I choose to take a loan and hope that businesses I work with stay open. Over 70% of my clients are now either not earning or not working, gaining either furlough or SEISS funds, but I am not eligible. I have taken this all on thinking 2/3 months would be ok, but as the lockdown has been extended and some of my clients are not able to go back until after July 2020 as they are in the hair, leisure and tourism industry, financially I have come to realise I now may not survive.”**

FSB member, accountant, South East

To rectify the gaps within Covid support, FSB worked with partners to design a completely new support scheme, called the Directors Income Support Scheme (the DISS) which met the concerns expressed by officials and secured cross-party support in Parliament as a serious proposal. This proposed scheme was, at the final stage, not adopted by Ministers. Company directors therefore found themselves frozen out of the key grant schemes.

The other significant group who found themselves unable to claim for lost income were those who were newly self-employed. One of the requirements of SEISS was that there needed to be a tax return for a previous tax year, a requirement that was put in place to minimise the risk of fraud. Policymakers have not only learnt lessons from the pandemic but have sought to reform significant areas of policy such as sick pay; however, there has been little focus or willingness around self-employment as outlined above.

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<sup>25</sup> Department for Business & Trade, Business population estimates for the UK and regions 2024, October 2024, <https://www.gov.uk/government/statistics/business-population-estimates-2024/business-population-estimates-for-the-uk-and-regions-2024-statistical-release>

While we hope never to see a repeat of the pandemic, if a comparable set of circumstances were to ever arise, it is vital that company directors and the self-employed do not suffer as a result of the same approach being taken once more.

## Recommendations

### The UK Government should:

- **Learn lessons from the pandemic, so that any future income support scheme for small businesses is flexible from the outset. Directors who draw income from running their business via dividends must be treated in-line with the self-employed.** Company directors often set themselves up as limited companies and choose to pay themselves through dividends rather than a salary due to fluctuations in income and a wish to reinvest in their business. They pay their taxes, through corporation tax and dividend tax. It is important that entrepreneurs are not deterred from using this business model as a result of being excluded from Covid support schemes.
- **Conduct full Equality Impact Assessments in the event where entrepreneurs require financial support from the Government.** The Public Sector Equality Duty (PSED) is a legal requirement under the Equality Act 2010 that requires public bodies to consider equality in their day-to-day work. The duty aims to help public bodies make society fairer by tackling discrimination and providing equal opportunities for all. Women, ethnic minorities and disabled entrepreneurs are more likely to be new entrepreneurs and thus were more likely to be excluded from the SEISS. Equality impact assessments for the SEISS failed to consider those that were excluded from the scheme.

## Inclusive entrepreneurship

Inclusive entrepreneurship policies aim to ensure that all people, regardless of their personal characteristics and background, have an opportunity to start and run their own businesses.<sup>26</sup>

There is limited recognition of the role that entrepreneurs play in delivering social impact particularly entrepreneurs from marginalised groups. They are often at the heart of the social economy. Inclusive entrepreneurship has an important role to play in job creation and inclusive and sustainable growth. 37 per cent of female, ethnic minority and disabled entrepreneurs say a benefit to being in business is to build a business which serves the community or create a positive social impact. For the Government to achieve its goals of increasing business growth, reducing inequality and eradicating poverty it cannot ignore the social economy and the work of the many entrepreneurs that play an instrumental role at community level.

## Female entrepreneurs

Women in enterprise contribute huge amounts to the UK economy. At the end of 2023, women made up 37 per cent of all self-employed workers.<sup>27</sup> In 2019, the Rose Review found that there could be up to £250 billion of new value added to the UK economy if women were to start and grow businesses at the same volume as men.<sup>28</sup>

**“Running my own business is incredibly liberating and I really love being my own boss. I have done things I would never have thought possible and felt fantastic as a result. I used to work as a radio producer at the BBC before starting my business as a consultant in media and communications. I am passionate about change and as a socially interested person, I’m interested in what’s going on in the world around me, and in my own community. I see that things are difficult for a lot of people in Glasgow, and I like to think that in my own small way I can leave my mark by trying to make life better for other people. Success to me in business is when I can support other organisations doing great work, that’s what is really important.”**

**Mairi Damer, Founder, Word Up Communications, Glasgow**

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26 OECD, The Missing Entrepreneurs 2023, November 2023, [https://www.oecd.org/en/publications/the-missing-entrepreneurs-2023\\_230efc78-en.html](https://www.oecd.org/en/publications/the-missing-entrepreneurs-2023_230efc78-en.html)

27 House of Commons Library, Women and the UK economy, March 2024, <https://researchbriefings.files.parliament.uk/documents/SN06838/SN06838.pdf>

28 HM Treasury, The Alison Rose Review of Female Entrepreneurship, March 2019, <https://www.gov.uk/government/publications/the-alison-rose-review-of-female-entrepreneurship>



FSB research shows 43 per cent of female entrepreneurs think that a benefit to running their own business is to have the opportunity to achieve something and get recognition for it, compared to only 32 per cent of men. This figure again is even higher (58%) amongst female entrepreneurs that started a business within the last three years, in process of starting or plan to start in the next 12 months. For the purposes of this report, we define these businesses as ‘new businesses’.

Additionally, over half of female entrepreneurs (53%) run their own business to have the opportunity to fulfil a personal vision, rising to almost three quarters (73%) for new female led businesses.

There is a strong connection between entrepreneurship and social change.<sup>29</sup> FSB data shows that 14 per cent of women, compared with nine per cent of men, say they chose to set up a business with a social and/or environmental purpose behind it. 41 per cent of women, compared with 30 per cent of men, run their business to serve the community or create a positive social impact.

## **New female led businesses and business growth**

Over one third (35%) of new female led businesses say they intend to develop a new product (goods and services) for market within the next three years. Additionally, 20 per cent of new female led businesses say they intend to start and/or grow a business in the digital/technology sector. FSB’s *The Tech Tonic* report found that just over three quarters (76%) of female business owners have innovated within their business in the last three years, compared with 66 per cent of male business owners.

**“I’m not your typical tech founder. I’m female, I’m in my forties and I’m from the heart of the South Wales valleys where we’re only a few generations away from our industrial past. With the investor landscape still having a heavily weighted male presence, it’s inevitable that many investors don’t see me in their own image. I often don’t fit the preconception or expectation of a typical investee and because of that there is a tendency for investors to underestimate my capability”.**

**“This doesn’t deter me; however, it does mean that I need to commit more time and energy to finding investment and to proving myself. The irony is that females, who are often surviving in the face of the additional challenges and hurdles, are ultimately better, safer investees; there are hundreds if not thousands of us ploughing on and wasting precious time and resource whilst we’re waiting for the investor ecosystem to realise that.”**

**Victoria Mann, CEO of NearMeNow, Wales**

Interestingly, 43 per cent new female led businesses intend to recruit more workers within the next three years (compared to an average of 31% of all entrepreneurs).

29 V Soundararajan et al, ‘Small business social responsibility: A critical multilevel review, synthesis and research agenda’ *International Journal of Management Reviews* (2018), p. 936

## Closing the gender entrepreneurial gap

The 2023 *Rose Review Progress Report* highlighted there had been a significant increase in female founded businesses since the Rose Review was published. Since the launch in 2019, the number of female-led incorporations had nearly doubled.

There are regional focuses on promoting and supporting female entrepreneurship. The benefits of this are highlighted by the University of York in research published in 2024 which found that up to about 165,000 jobs could be created and £2.6 billion Gross Value Added (GVA) could be added to the economy in York and North Yorkshire by supporting female entrepreneurs.<sup>30</sup> In the region only £62,000 of equity was raised by female-led organisations, in comparison to £3.8 million by male-led organisations.<sup>31</sup>

There is a continued need for investment into female entrepreneurship. This should be done in part by supporting the work of the new Invest in Women Taskforce.<sup>32</sup> They should also review the previous commitments made by the *Rose Review Progress Report* and ensure this important work continues through new and existing avenues.

## Recommendations

### The Department for Business and Trade should:

- **Set a target that 50 per cent of self-employed individuals should be women by 2035.** According to the data from the Office for National Statistics, at the end of 2023, 37 per cent of self-employed individuals were women.

### The UK Government should:

- **Implement a peer-to-peer network support system/mentoring programme to help self-employed women and female entrepreneurs to start and scale up their businesses.** This should be designed based on the Department for Business, Energy & Industrial Strategy previous Small Business Leadership Programme and Peer Network but designed to support female entrepreneurs on their enterprise journey.<sup>33</sup> This could include support in various areas which affect a number of women in enterprise – such as maternity/pregnancy, having a family, the menopause, confidence etc. FSB data shows that 4 in 10 self-employed women said their ability to start and grow their business would improve with access to free or subsidised mentoring.

30 University of York, A New Era for Female Entrepreneurship in York and North Yorkshire, September 2024, <https://www.york.ac.uk/enterprise-works/a-new-era-for-female-entrepreneurship/>

31 University of York, A New Era for Female Entrepreneurship in York and North Yorkshire, September 2024, <https://www.york.ac.uk/enterprise-works/a-new-era-for-female-entrepreneurship/>

32 Invest in Women Taskforce, Funding female-powered businesses, accessed October 2024, <https://www.investinwomentaskforce.org/>

33 Department for Business, Energy & Industrial Strategy, Small business support schemes: Small Business Leadership Programme and Peer Networks, August 2020, <https://www.gov.uk/guidance/small-business-support-schemes-small-business-leadership-programme-and-peer-networks>

## Ethnic minority led businesses

For the purposes of this report, we define an ethnic minority-led business, as an SME where a majority of the owners have decided to classify themselves into these various ethnic communities. It will include UK-born individuals or foreign nationals. The term ethnic minority business (or EMB) is also used to identify these businesses and is interchangeable with the term ethnic minority-led business.

EMBs in the UK comprise of first, second and third generation migrants with many entrepreneurs from Indian, Pakistani, Caribbean, Bangladeshi, East Asian, African and Middle Eastern communities. Entrepreneurship has long been regarded as a vehicle for financial independence and social mobility for ethnic minorities. FSB's evidence shows that ethnic minority entrepreneurs (10%) are more likely to have worked on their business alongside working or studying in comparison to white entrepreneurs (6%).

**“I finished my master’s and decided I didn’t want to do a PhD, but I didn’t know what I wanted to do, then the pandemic hit. I needed to earn some money so started working for UberEats. It liked the fact no one could tell me what to do. Being independent appealed to me and I found myself working more than I ever did when I was employed. Over time, I realised it was good, but it wasn’t secure. I decided to start my own business.”**

Black entrepreneur, transportation business, East Midlands

Cultural attitudes towards entrepreneurship may explain why EMBs have a higher total entrepreneurial activity (TEA) rate than non-EMBs. The TEA rate measures involvement either in setting up a new venture or running a very young one under 42 months. GEM highlights these findings:<sup>34</sup>

**“The TEA rate of the white ethnic population in the UK in 2023 was significantly lower than that of the non-white population, at 9% compared to 18.7% respectively.... In the last five years, the TEA rate of the non-white population was 2.1% higher than the TEA rate of the white population, meaning that for every white early-stage entrepreneur there were two non-white entrepreneurs starting up a business... In 2023, non-white females were 92% as likely as non-white men to start up a business.”**

34 Global Entrepreneurship Monitor, The UK's Entrepreneurial Journey over a quarter of a century: United Kingdom 2023/24 Monitoring Report, July 2024, <https://www.gemconsortium.org/economy-profiles/united-kingdom-2>

Despite high entrepreneurial intentions amongst EMBs, the share of EMB-led businesses has been unchanged. As FSB's 2020 report found, EMBs generate around £25 billion of GVA (the same contribution as Manchester or Birmingham). A report from CREME and NatWest suggests the "contribution of EMBs can be further enhanced if the UK Government takes concrete steps to capitalise on the key strengths of ethnic minority communities, particularly their entrepreneurial ambitions and tendencies to innovate and export."<sup>35</sup>

FSB's evidence suggests EMBs have high rates of ambition when it comes to innovation (EMBs 36% vs non-EMBs 28%), exporting (EMBs 20% vs non-EMBs 13%), recruit more workers (EMBs 36% vs non-EMBs 31%) and start or grow a business in digital or tech (EMBs 25% vs non-EMBs 12%). This data highlights clear opportunities for growth but it isn't being realised. FSB's evidence suggests one key reason is business support. Out of all the challenges posed to respondents, ranging from poor payment practices, balancing family and work life, and maintaining skills or knowledge, one factor stood out as a key challenge for ethnic minority entrepreneurs – business support. Thirty per cent of EMBs say getting impartial advice or support is a challenge compared to 20 per cent of non-EMBs. This may be due to the fact EMBs are also likely to be sole traders and thus can be excluded from government schemes based on eligibility rules regarding the number of employees (EMBs 38% vs 29% non-EMBs).

## Recommendations

### UK Government should:

- **Improve the accessibility of business support through collaboration with organisations such as the British Library, Civil Society organisations and other local community-based organisations, which are able to reach out to ethnic minority business owners in our most diverse communities.** EMBs in the UK face multiple obstacles that prevent their access to suitable business support, some shaped by their attitudes towards and uptake of formal support services as well as specific supply and demand side barriers.
- **Support ethnically diverse high streets and seek to actively engage with all business owners including ethnic minority led businesses.** This could be achieved through regular monitoring with the support of local trusted intermediaries by way of data collection from independent business owners located on diverse high streets. Regular monitoring, with the support of local trusted intermediaries would provide local authorities with a deeper understanding of the challenges small business owners, particularly those from minority backgrounds and help negate cultural barriers. British history shows diverse communities have re-invigorated many high streets across the UK. This should not only be celebrated but valued as diverse high streets contribute greatly to local economic growth and a strong sense of social wellbeing.

35 Aston University, Centre for Research in Ethnic Minority Entrepreneurship (CREME), Time To Change: A blueprint for advancing the UK's ethnic minority businesses, May 2022, [https://www.natwestgroup.com/content/dam/natwestgroup\\_com/natwestgroup/pdf/CREME-NWG-Time-to-change-report.pdf](https://www.natwestgroup.com/content/dam/natwestgroup_com/natwestgroup/pdf/CREME-NWG-Time-to-change-report.pdf)

## Disabled entrepreneurs

Disabled entrepreneurs are an essential part of the UK economy, with disabled-owned small businesses accounting for 8.6 per cent of the turnover of all UK businesses.<sup>36</sup> Disabled people in work are more likely to go into self-employment than non-disabled people in work. Sometimes this is due to a lack of appropriate employment prospects; 26 per cent of disabled entrepreneurs set up their business due to a negative experience with a previous workplace, compared to 17 per cent of all entrepreneurs.

While 24 per cent say they set up their business as their own personal circumstances are not compatible with a more conventional job, compared to 18 per cent on average. Interestingly, 15 per cent of disabled entrepreneurs chose to set up a business with a social and/or environmental purpose behind it, compared to nine per cent of those without a disability.

In July 2024, Liz Kendall, the Secretary of State for Work and Pensions outlined the Government's goal for an 80 per cent employment rate. Supporting disabled people in and into self-employment should play an important part in the overall strategy to close the disability employment gap, which, in the latest available data for Q2 2023, remains very large at 28.9 percentage points.<sup>37</sup>

There remain significant barriers to disabled people in self-employment. Our previous research indicates that 52 per cent of disabled entrepreneurs have experienced a barrier due to their having a disability or health condition.<sup>38</sup> This includes not being able to commit to consistent hours or meet short deadlines (34%), when applying for financial support (15%), and lacking access to equipment (11%). There are also other parts of the system that are not generally considered from the lens of a disabled entrepreneur.

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36 FSB, Business without Barriers: Supporting disabled people and those with health conditions in the workforce, April 2022, <https://www.fsb.org.uk/resource-report/business-without-barriers.html>

37 Department for Work and Pensions, Employment of disabled people 2023, October 2023, <https://www.gov.uk/government/statistics/the-employment-of-disabled-people-2023/employment-of-disabled-people-2023>

38 FSB, Business without Barriers: Supporting disabled people and those with health conditions in the workforce, April 2022, <https://www.fsb.org.uk/resource-report/business-without-barriers.html>

“As a disabled entrepreneur, I often feel our value is over-looked. For instance, and while I’m not planning on selling my business imminently, I’m really concerned about how selling would relate to the disability benefits I receive.

“The fantastic social care support I receive via my council, as well as the funding I receive for my wheelchair and mobility vehicle is all means tested. While I understand why it’s means tested, I’m worried that I will need to spend all I make from selling my business on social care support. While I wouldn’t expect to make billions from my business, if I’m going to lose everything I make, it’s not worth the exit. It makes me wonder if it was worth all the stress of setting up in the first place.

“There’s a need to empower disabled entrepreneurs when they first set up. Currently, there is a severe lack of support and advice available to disabled entrepreneurs. I’ve found it difficult to find examples of people facing this situation, which speaks volumes. There are no experts I can go to with this – no-one with the cross-cutting expertise and knowledge.”

Small business owner, Marketing, London

Even for the support that is available, it does not appear to be well understood. Previous FSB research found 13 per cent of business owners who are disabled or who have a health condition have used Access to Work. 35 per cent have not heard of the scheme at all, and 25 per cent were not aware that it was available for the self-employed.<sup>39</sup>

It is therefore welcome that the independent Lilac Review was launched in early 2024, examining these issues for disabled entrepreneurs. We hope that the Government takes on board their recommendations when their final report is published.

## Recommendations

### The Department for Business and Trade should:

- **Set a target to have 250,000 more disabled entrepreneurs by 2030.** This target should be complementary to wider strategic efforts to close the disability employment gap as a whole. As well as a disability employment gap, there exists a disability entrepreneurship gap, and government should act to help close both in order to reach their 80 per cent employment target. This report highlights the economic, social and health benefits of entrepreneurship by disabled people to the UK.

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<sup>39</sup> FSB, Business without Barriers: Supporting disabled people and those with health conditions in the workforce, April 2022, <https://www.fsb.org.uk/resource-report/business-without-barriers.html>

### The Department for Work and Pensions should:

- **Publicise Access to Work at each point of contact between entrepreneurs and Government – including through primary care settings, and HMRC.** DWP is conscious of the relatively low take-up of Access to Work, including amongst the self-employed. To rectify this, Government needs to use all of the many points of contact it has with disabled entrepreneurs to publicise the scheme. This should include both HMRC and primary care settings.

## Entrepreneurship in later life

Those over 50 are less likely to say that they found it more difficult to navigate bureaucracy when they started their business. Six per cent of entrepreneurs over 50 say they found it difficult to navigate legal and regulatory requirements and eight per cent say they found it difficult to navigate the tax system. For entrepreneurs under 50, these figures are 16 per cent and 21 per cent respectively. However, 30 per cent of over 50s identify keeping their skills related to their sector up to date, slightly higher than the 29 per cent of under 50-year-olds identifying this challenge.

Entrepreneurs over 50 are still eager to grow their businesses. 28 per cent identify the potential to scale up a business as a benefit of being self-employed/running a business. While this is a significant amount, it is still lower than those aged under 50, with 44 per cent of those aged under 50 identifying this benefit. Entrepreneurs aged over 50 are almost as likely as those aged under 50 to be planning to export (13%/16%) or develop new products (27%/36%) in the next three years. However, they are much less likely to be looking to develop a business in the technology sector (10%/21%) or recruit more workers (28%/43%) in the next three years.

## Pension freedoms

In April 2015, reforms were implemented to enable those aged 55 year or over to take out up to 25 per cent of their pension, tax-free, to spend it however they liked. Until that point, they had been forced to use it to purchase an annuity, which then guarantees an income. According to HMRC, the total value of taxable payments withdrawn flexibly from pensions since 2015 has exceeded £72.2 billion.<sup>40</sup> FSB data finds that five per cent of those who started their business in the last three years, are in the process of starting or plan to start in the next 12 months have used pension freedom rules to access their pension pot to set up.

Older would-be entrepreneurs will generally be more able to access accumulated wealth compared to younger age groups, which could provide them with financial resources to start new businesses and create jobs for the economy. However, this needs to be done with care for those choosing to access their pension pots.

<sup>40</sup> HMRC, Private pension statistics commentary, September 2023, <https://www.gov.uk/government/statistics/personal-and-stakeholder-pensions-statistics/private-pension-statistics-commentary-september-2022>

Given the older entrepreneurs' financial resources and wealth of experience, those new businesses may have considerable social impact as well. Isele and Rogoff also point to a positive health impact since the involvement of older individuals in entrepreneurship may help with their mental well-being.<sup>41</sup>

## Recommendation

The Department for Work and Pensions should:

- **A forthcoming pensions review should consider the economic and entrepreneurial benefits that Pension Freedom legislation has brought over the last fifteen years.** A study of those using pension freedoms to start a business should be a component of such a review. Alongside the economic benefits this study should also assess individual pension outcomes.

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41 E Isele & E Rogoff (2014). 'Senior Entrepreneurship: The New Normal' Public Policy & Aging Report 24 (2014) pp. 141-147



## METHODOLOGY

This report is based on the views of FSB members as well as the wider self-employed population across the UK. The survey was nationwide in its reach and participants were invited to complete the survey via email and social media channels. The survey was administered by the research agency Verve and was in the field from 23 October 2023 to 2 November 2023. The survey questionnaire was completed by a total of 1,378 self-employed individuals. The survey findings are all weighted according to FSB membership weighting (to reflect the demographic balance of FSB members throughout the UK).

All percentages derived from the survey are rounded to the nearest whole number, which is why some percentages presented in the figures do not sum to 100 per cent. The focus groups took place via Zoom and purposefully drew from a variety of regions, sectors, and population demographics.

FSB undertook a mixed research approach consisting of a quantitative online survey, three focus groups which took place in November on Zoom. Interviews took place between November and July 2024.

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