

# Evaluation of the Hartlepool 'informal to formal' pilot

A report prepared by the Centre for Economic & Social Inclusion

August 2006

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## **Acknowledgements**

We would like to thank the following for their involvement and support in this evaluation; firstly, the new business start-ups in Hartlepool without whom the project could not have been completed. Secondly, the 'Informal to Formal' stakeholders who agreed to be interviewed as part of this study, especially local enterprise providers InBiz and DHP for their co-operation in recruiting local enterprises for interview. We would also like to thank Street North East, and Hartlepool College for providing access to additional interviewees.

Associate researchers Sarah Robinson and Helen Collins from Boundaries Unlimited conducted the primary research with new business start-ups in Hartlepool.

We would also like to acknowledge the work of Lydia Morris whose research studies in Hartlepool have proven invaluable in understanding the history and background to informal working in the borough.

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## EXECUTIVE SUMMARY

### Introduction and background

The 'Informal to Formal Pilot' is a multi agency initiative developed within Hartlepool Borough. The project aims to promote enterprise creation by targeting individuals who are currently operating in the informal economy and encouraging them to legitimise and then develop their businesses. The Pilot aims to:

- Encourage and promote enterprise
- Reduce the tax gap, and
- Direct people to the most appropriate form of financial support.

### The statistical and economic context

Hartlepool's economy is improving, although there are still major disparities to be addressed and mixed performance against some key indicators. Skills are low and potentially falling while employment is rising albeit from a very low base. Levels of self-employment have increased in recent years and now exceed the regional average although significantly lagging behind the national average. Business density is also low compared to the rest of the UK, although the situation is improving with new business VAT registrations and deregistration slightly ahead of the curve.

High rates of economic inactivity and relatively low earnings amongst the employed would appear to provide the local economic conditions in which informal activity would flourish. The need for low paid workers (part time and casual) and benefit claimants to enhance incomes would suggest significant scope for the development of 'necessity' entrepreneurship through the informal economy. If this were indeed the case the informal economy could explain some of the gap in economic and employment performance between Hartlepool and other parts of the UK.

### The informal economy

The Hartlepool Pilot has adopted a definition of the informal economy which is consistent with the Small Business Council and includes all business activities that are '*unregistered by, or hidden from the state, for tax and/or benefit purposes, but which are legal in all other respects*'. Quantitative methodologies for measuring unreported activity vary from state to state and estimates supporting the size of the informal economy in the UK are uncertain. The 2004 Blue Book, produced by ONS, reports informal activity in the UK at 1.66% of GDP (approximately £17 billion). Research findings suggest that the individual instances of informal activity are predominantly piecemeal involving a small turn over of cash compared with the formal economy.

The major UK studies have identified that informal activity is prevalent in the domestic household market (including home maintenance and repair, routine housework, gardening services and caring). Although it is recognised that the informal economy is far more diverse in its entirety it is also true that work in these sectors are likely to match the kind of skills that many individuals on the margins of the labour market will possess. These are also sectors that tend to be over-represented in the Hartlepool economy – with higher than average proportions of workers existing in personal service as well as ‘skilled’ trade sectors.

A series of empirical case studies in Hartlepool have characterised the informal economy as a response to structural unemployment and the increased casualisation of work. The general features of informal work in Hartlepool have been found to correspond to the notion of underemployment involving both employed and unemployed people alike. Both rich and poor people are to a greater or lesser extent, complicit in creating the demand for an informal economy, whether working or trading within the sector, or commissioning services. Additionally it is found that registered businesses are also significantly active in the informal economy, and that informal activity is therefore not primarily about benefit fraud.

## **Business support in Hartlepool**

There is a strong argument for building on the existing structures established by the Informal to Formal partnership to better integrate the wide range of services and to provide a broader business offer in Hartlepool. At the national and regional level the Business Link franchise is recognised as the main brand for business support. However, the perceptions of new business starts interviewed during this evaluation suggest that Business Link is not always a recognised or favoured brand at the local level where contracted enterprise providers and the local authority are more visible.

The role of Business Link, as a broker, is to provide one point of access to all the business support services available. This role needs strengthening. An over-arching business led partnership would enhance existing arrangements and provide a shared strategic vision for the borough. However, the single Business Link brand would help significantly in the promotion and marketing of local business support. Customers interviewed as part of this study have clearly identified a single gateway as a vital aspect in making available services less confusing.

## **Stakeholder views about the pilot**

The key issue for all partners has been the failure to assist more individuals to move effectively from the informal to formal economy. There are a number of reasons for this development and some findings point to a fault in the design of the pilot, and the potential conflicts of interest facing enterprise providers in implementing the

confidential assessment. Providers have not been contracted or incentivised to deliver the 'question bank' and this consensual arrangement has not been enforced by the partnership. Underpinning this weakness is a general level of mistrust within the partnership regarding HMRC's willingness to protect the anonymity of informal traders coming forward for an assessment of liabilities.

However, there have been successes. The commitment to the partnership at the local and regional level has sustained beyond the pilot period and there is evidence that the informal economy is being addressed as part of a wider policy agenda and that interventions to encourage informal to formal activity are being integrated within mainstream business support services in the area. The multi-agency approach is now well embedded in Hartlepool and the partnership is thinking in the longer term. The 'Get Serious' campaign is ongoing and now part of how enterprise is promoted in the borough.

## **Key findings from small enterprises**

Local people are aware of a change in attitude to enterprise in Hartlepool. Indeed previous residents as well as newcomers have been attracted to the town by its location, incentives and potential to grow a business. Many of the new enterprises that we spoke to were positive about their experiences of setting up their business and the support that has been offered to them in doing so, although improvements to the general integration and co-ordination of services were indicated.

Most new businesses in Hartlepool are aware of the informal economy and attribute this to the erosion of permanent employment in the town. Informal activity is generally seen within the context of coping strategies and the need to survive, although it is also recognised as both a potential cause and effect of changing attitudes to enterprise and self-employment. In many instances the motivations to start up a formal business are not dissimilar to the factors, which influence the transition from informal to formal activity.

The 'Get Serious' campaign has not had sufficient profile within the town and would also appear to be communicating mixed messages. The availability of a confidential assessment of liabilities for informal businesses is largely unknown. As such it has been difficult to assess the benefits of this 'offer' in stimulating the transition from 'informal to formal' activity as part of the pilot initiative. It is evident that improvements would need to be made to the existing campaign to provide a convincing argument to informal traders about the advantages in legitimising activity. A key barrier is a lack of trust in those government agencies administering the confidential assessment of liabilities.

## **Assessing impact**

There is insufficient information to quantify the impact of the pilot in terms of its primary aim to assist the transition from informal to formal business activity. Qualitative data gathered from interviews with new enterprises suggests that there are a number of businesses that have legitimised their activity during the period, although it is uncertain whether this can be directly attributable to the pilot initiative.

In terms of the pilot's secondary objectives, there is evidence of improved enterprise rates. Business start up rates for Business Link and Jobcentre Plus programmes are on target to exceed previous achievements by the end of the year. Despite these improvements current performance is not sufficient to bridge the existing enterprise gap between Hartlepool and the UK, with the exception of self-employment rates which are attainable given continued levels of achievement.

The profile of the new business start-ups would suggest that many are struggling to generate sufficient profits in the short to medium term and this will clearly have an impact on longer-term survival. An over concentration on policies to encourage the long term unemployed and other vulnerable groups into self-employment could have a counter productive effect. Improved information on long-term survival rates is required to assess the long-term impact of enterprise support on workless populations and the benefits to the public purse.

## **Conclusions and recommendations**

The main success of this initiative is the extent to which interventions designed to encourage the transition of informal to formal activity are now integrated as part of mainstream business support in the area. Recommendations for improving the transition from formal to informal activity are primarily delivery focused, although there are major policy constraints determining what can be achieved at the local level.

### ***Information requirements***

- The development of future informal to formal initiatives across the Northern way will require an understanding of current levels of HMRC action, to identify a baseline for activity.

### ***The 'offer' of a confidential assessment***

- It is essential that HMRC continue their commitment to the 'offer' of a confidential assessment to build on the lessons of the Hartlepool pilot and to enable future testing, expansion and roll out of activity across the Northern Way.

### ***Test trading***

- Continued commitment to a self-employment option by Jobcentre Plus is required to enable benefit claimants to legitimately test trade.

### ***Funding***

- Funding constraints to support informal to formal activity, should be addressed via requests for local flexibilities through Local Area Agreements and future applications for Local Enterprise Growth Initiatives (LEGI) should make explicit reference to the informal economy.

### ***Promotion and awareness***

- Future plans to encourage the transition from informal to formal activity, in Hartlepool or elsewhere, will need clear and precise messages targeting informal activity alongside the more generic promotion of enterprise and local support services

### ***Integrated services***

- A single gateway making available services less confusing, including a one-stop shop referral system utilising existing provision, information and advisory services, business brokers, Benefits and Tax advisors

### ***Local flexibilities for tax liabilities***

- A regional alliance across the North East and Northern Way would help to lobby for more local flexibilities through the LAA and LEGI process.

### ***Informal practices by formal businesses***

- Future activity should consider the broader scope of informal activity and how legal businesses may be assisted to regulate their informal practices.



# 1 INTRODUCTION AND BACKGROUND

- 1.1 The 'Informal to Formal Pilot' is a multi agency initiative developed within Hartlepool Borough. The project aims to promote enterprise creation by targeting individuals who are currently operating in the informal economy and encouraging them to legitimise and then develop their businesses.
- 1.2 One North East is the project sponsor and the other partners involved include:
- Business Link Tees Valley
  - HM Revenue and Customs
  - Hartlepool Borough Council
  - Jobcentre Plus / Department of Work and Pensions
  - One North East
  - Small Business Service
  - Local Enterprise Providers (DHP and InBiz), and
  - Street North East.

## **Aims and objectives**

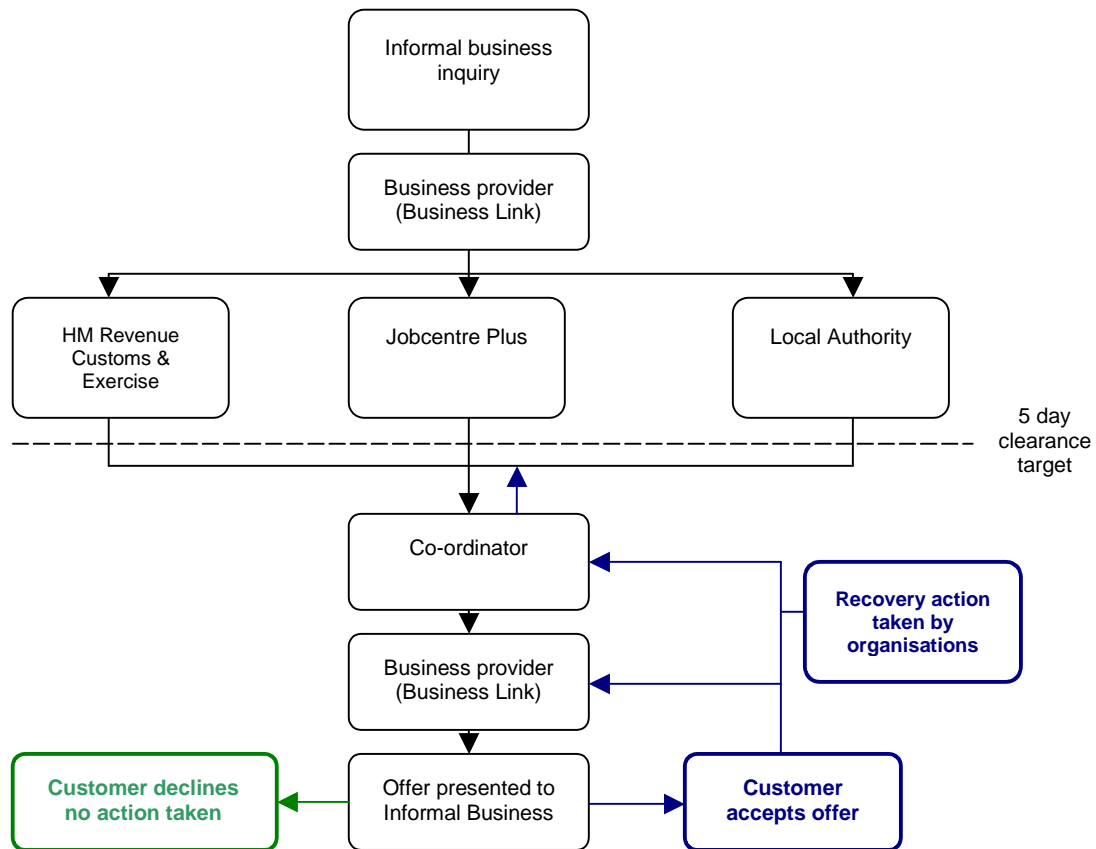
- 1.3 The 'Informal to Formal Pilot' has a number of strategic aims, which underpin the initiative. Broadly the pilot aims to:
- Encourage and promote enterprise
  - Reduce the tax gap, and
  - Direct people to the most appropriate form of financial support.
- 1.4 To measure the impact of this initiative a series of objectives have been developed to enable a full evaluation to be undertaken.
- Increase the number of new legitimate businesses accessing the support of the local Business Support Network to encourage further growth potential, expansion and job creation
  - Develop an understanding of enterprise within the town, including capacity building to encourage entrepreneurship and the promotion of enterprise
  - Develop enhanced ways to identify latent entrepreneurial talents
  - Create closer working partnerships between the business start up providers within the town and the national, regional and local funding / legislative organisations that maximises opportunities / potential
  - Introduce improved monitoring by funding organisations, to ensure that the quality and relevance of the start up provision is enhanced, to meet the current and future needs of existing and prospective businesses

- Improve access to existing businesses within the town to fully utilise the range of start up and business growth measures / packages available, to aid sustainability / growth

## **The pilot “offer”**

- 1.5 In many respects the pilot provides a basic “offer”, which is simply a redefining and co-ordination of the individual components, which are currently available to all legitimate business clients in Hartlepool. This includes access to business advice and support as well as grant aid. However, for businesses currently active in the informal economy the pilot includes the provision of an anonymous and confidential assessment of any potential liabilities.
- 1.6 This aspect represents the main innovation of the pilot although it falls short of providing an amnesty on tax arrears. However, for those businesses interested in formalising and willing to make a full and voluntary disclosure the service includes independent brokering with Revenue and Customs to clear and potentially reduce past liabilities as well as exemption from prosecution.
- 1.7 The offer has enhanced elements that may include calculations on potential entitlements (including benefits and tax credits) and the potential liability calculation (indicating the level of debt owed to Government Departments as a consequence of their informal activities). This calculation would not only include the outstanding tax, NIC, and any potential overpaid benefit, but would also indicate the repayment terms that the relevant government departments would accept.
- 1.8 The model utilises local enterprise providers acting as intermediaries and providing confidential advice to individuals looking to formalise their business activity. The enterprise provider is required to gather information, based on a Question Bank document (see Appendix 1) agreed by HMRC and DWP. The relevant information is then submitted in an anonymous form, via Business Link Tees Valley to the departments. When determining any ability to repay, the individual Departments would work together to present a coordinated proposal to the enterprise provider, who in turn will make the proposal to the applicant.
- 1.9 There is a clear issue regarding confidentiality and the position of the enterprise provider, in terms of them being culpable, by masking any informal economy venture. However there was full acceptance from HMRC and DWP that their position will not be compromised and client confidentiality will be secure. Figure 1 below illustrates the processes agreed by partners for the implementation of the confidential assessment.

**Figure 1: Confidential assessment process for the 'Informal to Formal' pilot**



1.10 Recovery arrangements are made for all customers choosing to accept the terms of the offer. HMRC expect full payment (100%) if the customer is in a position to do so (i.e. has funds available). If customers can pay a part lump sum this is expected (variable) and if they cannot pay anything up front (and for balances due after a part lump sum payment) HMRC would then look for payment to be made out of disposable income (what's left after normal expenditure) with a minimum of 25% of that disposable income being required.

1.11 This is in line with HMRC's normal time to pay policy. Each case is individual and considered on its merits. Other relevant factors, which help HMRC determine whether they can assist include the amount involved, the length of time it would take to clear, and future accruing debt.

1.12 Importantly no action is taken against customers as a direct result of their decision to volunteer for a confidential assessment and subsequently declining the offer for recovery payments. Although all customers continuing to trade informally will remain at risk of standard investigations conducted by government agencies in the borough.

- 1.13 The pilot has not established a baseline for informal activity – in terms of local tax fraud prosecutions – and targets have not been set for the number of confidential assessments to be conducted.

## Method

- 1.14 Our approach in conducting this evaluation has involved both desk based and qualitative research. We have reviewed relevant literature to inform the context and background to the informal economy and the rationale for the development of the pilot. We have also conducted a socio-economic review of the Hartlepool borough to assess local performance against a range of key indicators and to understand the labour market conditions in which informal activity occurs.
- 1.15 In-depth interviews have been conducted with all key stakeholders and partners involved in the pilot to assess the roles and responsibilities of individual partners and perceptions about the effectiveness and strength of the partnership in delivering the pilot. In-depth interviews have also been conducted with clients of enterprise providers to help assess the impact of the pilot in helping informal businesses move to legitimate status. This includes an assessment of client perceptions about:
- What is attractive to the customer about the pilot
  - Why individuals choose to approach providers rather than the government department, and
  - Why individuals chose to take-up the offer and why others chose not to accept the government's terms for repayments
- 1.16 Wider views were also sought from clients about the effectiveness of the business support services offered in Hartlepool, including access to counselling, mentoring and financial support.
- 1.17 Statistical analysis of the pilot outputs has also been provided to help provide an assessment of the wider impacts of the initiative in terms of increase to local enterprise rates, likely impacts to the local economy and the public purse. This approach will identify key findings and recommendations for future action including possible expansion and roll out across the Northern Way regions and further a field.

## 2 ECONOMIC CONTEXT

2.1 The following section will explore the economic and labour market conditions in Hartlepool to help to identify the context in which informal activity occurs. It may also provide the background to explaining the propensity for Hartlepool residents to become active in the informal economy.

### Population

2.2 Hartlepool has experienced massive depopulation losing over 75,000 people since 1971 when the borough recorded its highest census return. Population has continued to decline in the last twenty years, although at a significantly reduced rate which is now broadly in line with national trends.

2.3 The age profile for Hartlepool is generally comparable with the North East and England for most age groups. Compared to the national average there is a smaller age group (by almost 3 percentage points) within the prime economically active age group 20 – 49. Hartlepool does however vary significantly to the national average in terms of ethnicity, with 98.8% of the population from white ethnic groups, compared with 97.6 for the region and 90.9% for England.

**Table 1: Population by age group, Census, ONS, 2001**

Age	Hartlepool		North East		England	
	No.	%	No.	%	No.	%
Aged 0 to 4	5298	6.36	138444	5.82	2926238	6.33
Aged 5 - 15	13977	16.78	358878	15.10	6975343	15.09
Aged 16 - 19	4607	5.53	130036	5.47	2408837	5.21
Aged 20 - 24	4559	5.47	149834	6.30	2952719	6.39
Aged 25 to 29	4869	5.85	148187	6.23	3268660	7.07
Aged 30 to 39	13237	15.89	373363	15.71	7666624	16.59
Aged 40 - 49	12219	14.67	350328	14.74	6572452	14.22
Aged 50 - 64	15461	18.56	450062	18.93	8559958	18.52
Aged 65+	14367	17.25	416306	17.51	7808000	16.90
<b>Total</b>	<b>83296</b>	<b>100.00</b>	<b>2376994</b>	<b>100.00</b>	<b>46212593</b>	<b>100.00</b>

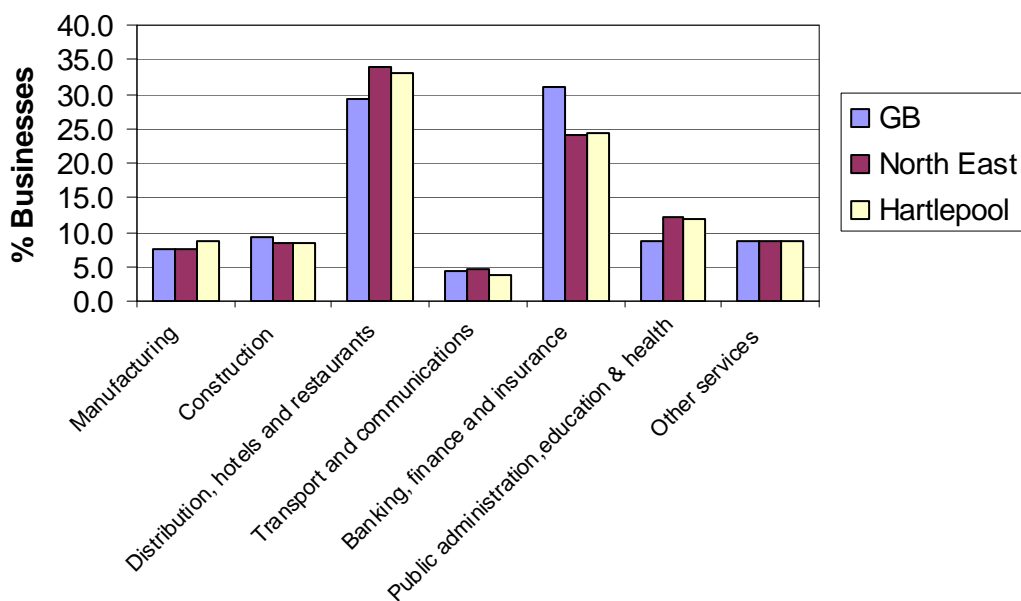
### Business formation

2.4 Hartlepool is a town that was once dominated by male employment in heavy industry. Established as a port in the 1830's to export coal, the town soon developed a thriving shipyard and metal manufacturing grew as a natural addition to these activities. Economic decline began in the late 1950's with the run down of shipbuilding and later steel manufacturing. Employment in oil and gas, the petrochemical industries in Tees Valley and work off the Scottish coast provided

some respite but by 1981 male unemployment in the town had reached about 20%.

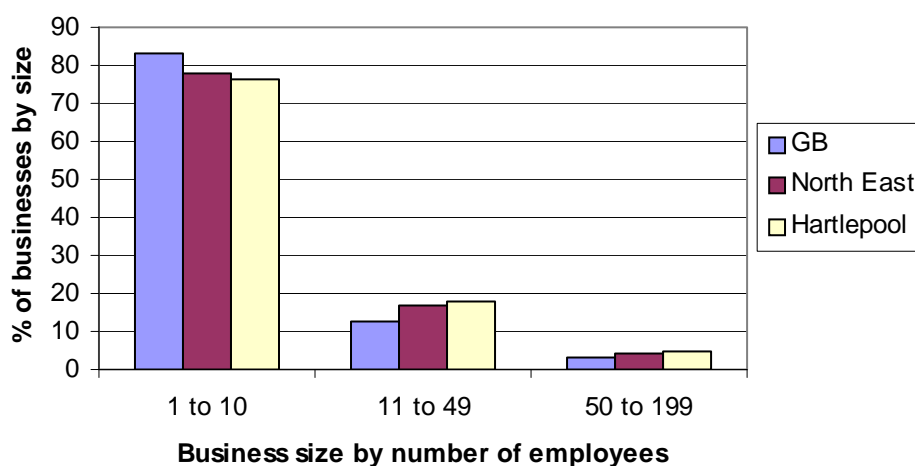
2.5 The shift in emphasis from manufacturing to services corresponded with movements in the labour market from male to female employment, full time to part time work and unremitting increases in unemployment. Recent years have seen the restructuring of Hartlepool's economy fall in line with the general patterns of business formation found within the North East and the UK. The proportion of businesses in manufacturing remains higher than the regional and national average, although remaining low compared to other growth sectors. The service industries of distribution, hotels and restaurants, which represents Hartlepool largest sector, is proportionally higher than the national average, while banking finance and insurance is above the regional average, although significantly below the national average.

**Chart 1: Proportion of main business sectors in Hartlepool, ABI, 2006**



2.6 The national shift away from large employers to a greater number of smaller firms is also reflected in Hartlepool's business formation. Approximately 76% of all businesses in Hartlepool employ fewer than 10 people. This is marginally behind the regional average (78%) but significantly behind the national average (83%) suggesting that Hartlepool still has some way to go in developing its SME base to meet the increasing supplier chain requirements of fragmented sub-contracting and procurement. Conversely, Hartlepool has a greater number of larger employers, with 18% of all businesses employing between 11 and 49 staff, and

**Chart 2: Proportion of businesses in Hartlepool by size, ABI, 2006**



## Employment and unemployment

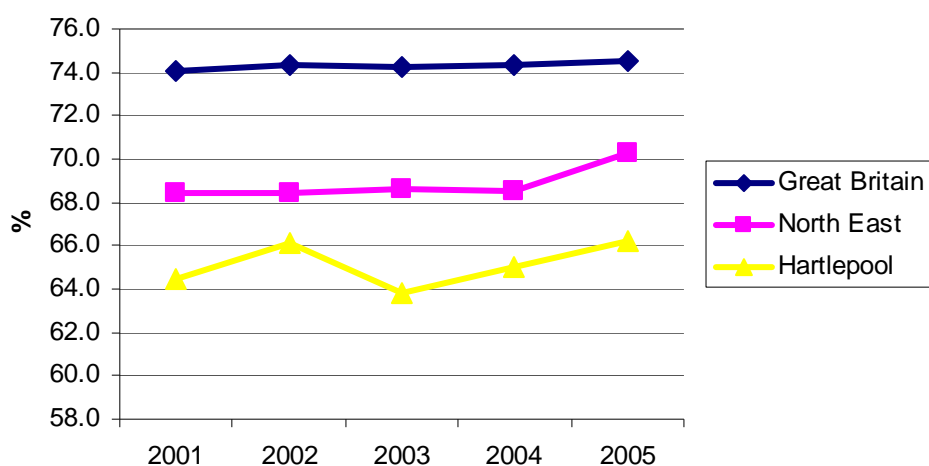
2.7 The UK has in recent years experienced one of the highest employment rates (74.5%) amongst developed countries, with the highest employment rate of the seven major industrialised countries and also the lowest unemployment (4.8%).<sup>1</sup> Unemployment has been reduced in every region of the UK, since 1997. However the picture is much less positive in many parts of the country – particularly in the inner cities. The vast majority of the UK's large cities have resident employment rates below the current overall UK rate. There are exceptions among the largest cities though with both Bristol and Leeds performing above the UK average but there are still considerable disparities within, and between, regions.

2.8 Hartlepool has struggled to maintain even conditions in the labour market during this period of healthy economic development with employment rates significantly and consistently below the regional and national average. Although unemployment has fallen significantly since the worst figures recorded during the 1980's (unemployment is currently estimated by LFS at 7.8%) recent figures suggest that the local labour market is also more volatile with a drop in employment in 2002 running counter to regional and national trends.

<sup>1</sup> Only Liverpool and Newcastle city region had a lower employment rate than the OECD average in 2001.

2.9 Hartlepool would need to assist approximately 4,700 additional residents into employment to achieve parity with the National employment rate, and a further 2,600 to achieve the Government’s aspiration for an 80% employment rate. However, although Hartlepool employment rates have varied during the last five years (between 64 and 66%) the borough continues to perform better than those areas of the UK, which have the lowest employment rates.

**Chart 3: Employment rates, LFS, from Nomis March 2006**



## Qualifications and skills

2.10 The overall employment rate for all groups in the UK has increased rapidly since the last major recession in the early 1990s. However, underneath this improved headline figure is the worsening performance of the lowest qualified where employment rates have been dropping fairly steadily since the early 1990s.

2.11 Hartlepool has a higher proportion of residents with no qualifications than the region and national average and fewer people qualified above level 4 or equivalent.

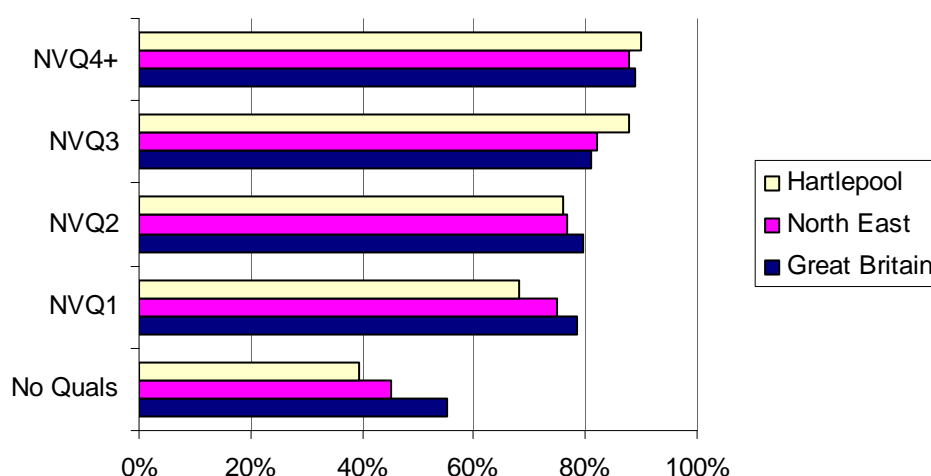
**Table 2: High and no qualifications in Hartlepool, LFS, Nomis March 2006**

Qualifications	Levels 4+	No Qualifications
Hartlepool	15.3%	21.5%
North East	20.7%	18.0%
Great Britain	25.2%	15.1%

2.12 What is clear is that people with qualifications at Level 3 or above are already employed at over 80% in the North East – and indeed in every part of the UK. Conversely those with lower skills have lower employment rates and chart 4 below shows that in Hartlepool, people with lower skills are less likely to work than their counterparts in the North East or nationally.



**Chart 4: Employment by highest qualification, LFS, Nomis March 2006**



2.13 The fact is that people with better skills are more likely to be in work – and to hold on to it in the future. As things stand today, people with poor basic skills are five times more likely to be unemployed or totally out of the labour market, than those with such skills. Research has shown that 50% of workers with low levels of literacy earn less than £9,000 per year, compared to just over 20% of those with high levels of literacy, and the gap is even greater for those with low numeracy skills. Men with good reading skills are over twice as likely to get promoted than those without (63% of men with poor reading skills have never been promoted, compared to 31% of men with good reading skills), and men and women with poor basic skills are over twice as likely to be sacked or made redundant than those with good skills <sup>2</sup>.

2.14 These conditions are expected to deteriorate much further in the future. The quantity of jobs requiring no formal qualifications is dropping fairly quickly in the restructuring labour market, as evidenced in the Government’s Skills Strategy published in 2004.

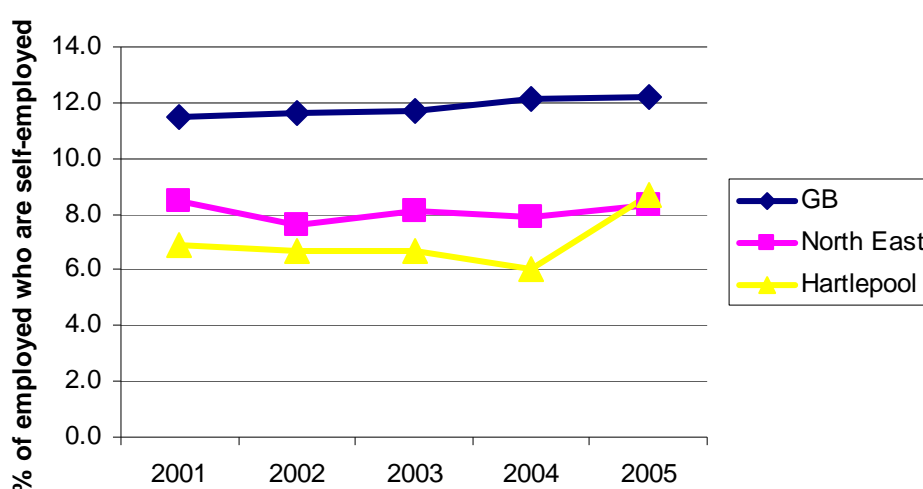
## Self employment and business start ups

2.15 Self-employment has shown a varied contribution to overall employment rates over the past twenty years. With a period of significant growth during the 1980’s and early 1990’s, followed by a period of stagnation and moderate decline until 2002, when numbers began to rise sharply again. This pattern fits well with economic trends and is clearly linked to the factors of ‘unemployment push’ and ‘prosperity pull’ (Meager 1993) as well as the positive influence of Government schemes to combat unemployment and the negative effects of Government benefits (Storey 1994).

<sup>2</sup> See John Healey MP and Natascha Engel, Learning to Organise, TUC and the Work Foundation, 2003.

2.16 The UK now has over 200,000 more small businesses than ten years ago and one of the fastest rates of increase in self-employment since the late 1980s with some 3.4m self-employed people, the highest since 1991. In 2004, 13% of adults in England were self-employed or owned a business and a further 11% were considering setting up a business<sup>3</sup>. Self-employment as a proportion of all employment has risen in Hartlepool in recent years (from 6.9% to 8.7%) to exceed the regional average (8.3%), although still lagging behind the national average (12.2%). The low self-employment figures in the North East suggest that residents in the region don't typically see self-employment or even owner operator status as quite so desirable or possible as other people in other regions.

**Chart 5: Self-employment in Hartlepool, LFS, Nomis, 2006**



2.17 Self-employment is an option within national employment programmes, delivered by Jobcentre Plus. Both the New Deal and Work Based Learning for Adults (WBLA) programmes provide a self-employment route for unemployed customers who are eligible.

2.18 New Deal is a mandatory programme for JSA claimants who are unemployed 6 months or more (New Deal for Young People: 18 – 24) or over 18 months (New Deal aged 25 Plus). WBLA is a voluntary programme available to all eligible Jobcentre Plus clients. Information about self-employment outcomes for the New Deal for Young People 18 – 24, is not available since this option is seen as just a routeway within the employer option. However, there is information available for the New Deal 25+ and WBLA.

2.19 Approximately 52% of all leavers from the WBLA programme in the North East have participated in a self-employment option. This is significantly above the national proportion of 37.6%. Unsubsidised job outcomes resulting from this

<sup>3</sup> HM Treasury 'Creating an Enterprise Culture' – discussion paper 2004

option, since April 2001, are also above the national average with 20% within the North East region compared to 17.5% nationally.

**Table 3: Destination of WBLA Leavers since April 2001, DWP March 2005<sup>4</sup>**

	<b>Total Leavers WBLA</b>	<b>Leavers from self-employment Option</b>	<b>Job Outcomes from self-employment Option</b>	<b>% Leavers from self-employment option</b>	<b>% Job outcomes from self-employment option</b>
England	376,975	141,745	24,777	37.6%	17.5%
North East	24,913	12,827	2,594	51.5%	20.2%

2.20 The participation in the self-employment option for the New Deal 25+ is significantly lower than WBLA, with only 3.2% of leavers in the North East having participated in the self-employment option, compared with 2.2% nationally. The performance in Tees Valley is marginally better than both the North East and national average, with 4.4% of all leavers from the self employed option. However, the proportion of leavers sustaining unsubsidised employment (self-employed or otherwise) is significantly higher in the New Deal programme than WBLA. 50% of participants on the self-employed option have sustained employment in Tees Valley, compared with 40.2% in the North East and 37% nationally.

**Table 4: Destination of New Deal 25+ Leavers since 2001<sup>5</sup>**

	<b>Total Leavers inc. Gateway</b>	<b>Leavers from IAP and follow through</b>	<b>Leavers from IAP Self-Employment and follow through</b>	<b>Leavers from IAP Self Employment Option to Unsubsidised Jobs</b>	<b>% of all Leavers leaving from IAP Self Employment</b>	<b>% of all leaving from IAP Self Employment into unsubsidised Jobs</b>
Tees Valley	5,420	2,080	240	120	4.4%	50.0%
North East Region	25,730	9,330	820	330	3.2%	40.2%
England	371,910	123,820	8,170	3,020	2.2%	37.0%

2.21 The reason for the relatively higher take up in the WBLA self-employment option may relate to the fact that this is not a mandatory programme. Individuals who volunteer for this intervention are likely to be more motivated to work and may possibly have considered self-employment as a preferred route back into employment long before their first back to work interview with a Jobcentre Plus advisor. It may also be the case that WBLA clients are older with previous work experience to inform their decision to become self-employed. However, this

<sup>4</sup> Data for WBLA is not available below North West Region

<sup>5</sup> Data for New Deal 25+ is not available below the Tees Valley district

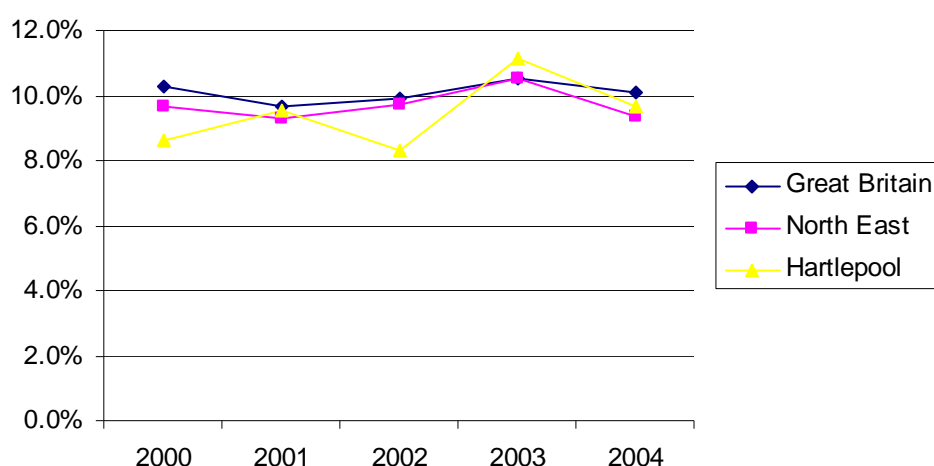
would require further research into the profile of New Deal and WBLA customers, and information to assist this analysis is not currently available.

## Entrepreneurial activity in Hartlepool

2.22 VAT registered businesses are a commonly used indicator for entrepreneurial activity, although VAT registrations apply to business premises with an income above £61,000 and therefore will not represent a total picture of all business activities. Research conducted by the Social Exclusion Unit identified that VAT registered businesses are more densely populated in less deprived areas. There are up to six times more new business start-ups in prosperous areas than in disadvantaged areas. However, unlike the employment and skills data, the available data on business start-ups through VAT registration data are more positive for Hartlepool.

2.23 VAT registration rates have increased steeply since 2002 and are now above the average for the region (9.7% compared with 9.1%). In 2002 the VAT registration rate exceeded the UK. Critically the de-registration rates also tend to be slightly better than the rest of the region and nationally with de-registrations currently at 7.7% compared with 8.9% for the North East and 9.9% for GB. However, Hartlepool is still lagging behind both the North East and national average for business density rates. Based on VAT registrations and working age population Hartlepool has a 2.3% business density rate compared with 3% for the North East and 4.9% nationally<sup>6</sup>.

**Chart 6: VAT Registrations (% of stock year end) in Hartlepool, Nomis 2006**



<sup>6</sup> It should be noted that any comparison using VAT figures has the potential to be misleading. The high VAT threshold means that most sole traders do not need to be VAT registered.

- 2.24 The Global Entrepreneurship Monitor (GEM) UK Project provides an internationally comparable index of entrepreneurship, which is based on survey data providing a baseline for the number of businesses per working age population<sup>7</sup>. The data is primarily used as an international indicator; however, regional data has been produced for the UK to help plot trends and regional disparities in enterprise rates. A number of sub-regions have requested a cross-section of the GEM data although this list does not include Tees Valley.
- 2.25 Entrepreneurial activity for the North East is currently 3.8% of the total working age population, as measured by the (GEM) UK Project. This is below the national average of 6.2%.<sup>8</sup> The GEM UK survey suggests that entrepreneurial activity in the North East exhibits very different characteristics to the UK. The North East entrepreneur is likely to be older (between the ages of 35 and 44 – compared with the age group 25 and 34 nationally) with a lower income classification (below £75,000) and have a vocational qualification or no formal qualification.
- 2.26 GEM makes an important distinction between ‘necessity’ entrepreneurship (people who think that they have little choice but to be self-employed) and ‘opportunity’ entrepreneurship (where people see a commercial opportunity and set up a business to exploit it). In many respects the profile for most entrepreneurial activity in the North East would fit with the ‘necessity’ model. In the North East male necessity entrepreneurship is 1.2% - this is 40% of the level of opportunity entrepreneurship. In contrast, female necessity entrepreneurship is just 8% of female opportunity entrepreneurship (0.2% and 2.5% respectively).
- 2.27 The relationship between education and entrepreneurial activity is complex but evidence suggests that most entrepreneurs in high-income economies will have a post-secondary education (57%) and pursue more ‘opportunity’ based ventures. While most entrepreneurs who start businesses are employed, there is a higher rate of business start up by unemployed people in low-income economies (Minniti).<sup>9</sup>
- 2.28 In the North East, high unemployment, low skills, and low incomes are positively correlated with ‘necessity’ entrepreneurship. The higher age profile for North East entrepreneurs may be explained by structural unemployment and large-scale redundancies or more generally by lower employment rates amongst younger people and the security to pursue opportunities, which being employed allows. However, the GEM survey does identify a latent demand for entrepreneurial activity in the North East, with a very high level of potential entrepreneurs, who

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<sup>7</sup> The total early stage Entrepreneurial Activity (tEA) index identifies the proportion of adults of working age who are either setting up or have been running a business for less than 42 months.

<sup>8</sup> GEM UK 2005

<sup>9</sup> Maria Minniti, Characteristics of the Entrepreneur, GEM

believe they have the skills and would like to form businesses but nevertheless are currently unwilling to take the risk.

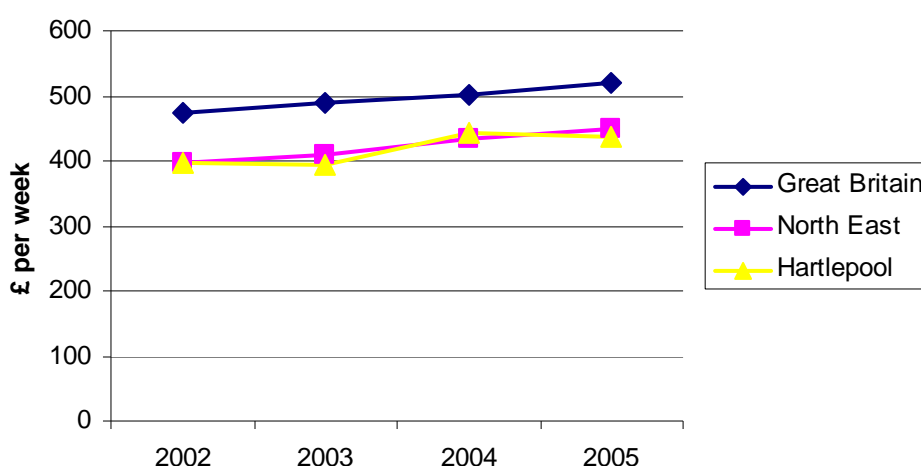
2.29 This unwillingness to take the risk and form a business may well relate to general insecurity with the local labour market. People living in deprived communities as well as those from disadvantaged groups in the labour market are the least likely to be people who can succeed at starting and running their own businesses. They also have a variety of other problems that add to this such as poor access to financial support, advice, low skills, poor infrastructure and often discrimination. Such issues tend to significantly limit both their aspirations and their potential to succeed in starting and growing small business. Compared to people in other areas and from other less disadvantaged groups, residents of deprived inner city areas are:

- Twice as likely not to have a personal bank account
- Less likely to be able to produce business accounts
- More likely to have lower incomes from full-time self-employment, and
- Less likely to own their own home or to hold significant financial assets.

## Earnings in Hartlepool

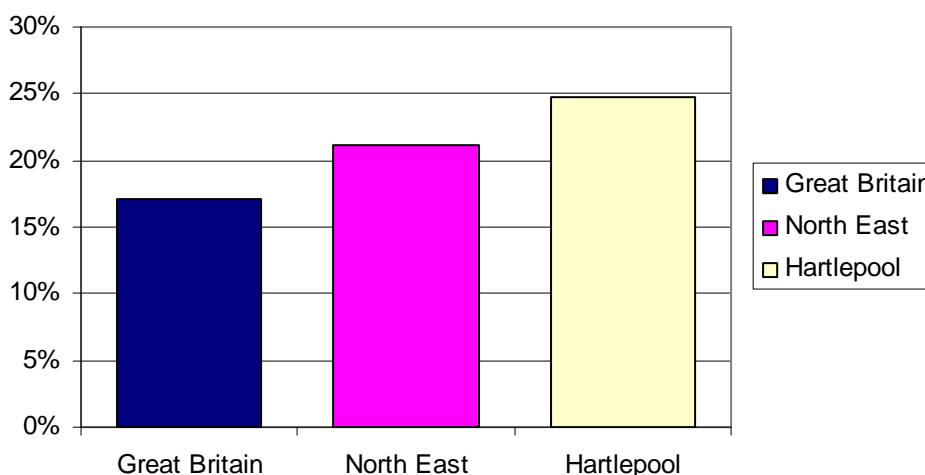
2.30 Average earnings in Hartlepool (£434 per week) also lag behind the regional (£449) and UK averages (£520). This is not surprising in economic terms because of the general weaknesses in the labour market evidenced earlier in this section. In basic terms supply of labour outstrips demand and therefore wages tend to be lower. However, average earnings have increased in Hartlepool (9.2%) greater than the national average (8.7%) although less than the region (12.5%).

**Chart 7: Average gross weekly earnings (full time), Nomis 2005**



2.31 The deficit in earnings is reflected in working tax credit take up (Chart 6 below) with higher proportions of Hartlepool Borough residents claiming tax credits than the region or the UK as a whole:

**Chart 8: Proportions of employed (including self-employed) receiving tax credits in Hartlepool, Nomis / Inland Revenue 2005**



2.32 This shows that large proportions of workers are claiming and receiving tax credits on the basis of these low wage averages for Hartlepool. Of course there are likely to be others working who are eligible but are not claiming – just as there will be workless residents who are not aware of what a difference in earnings this may potentially make to their take home pay when considering a formal job in the labour market. In this sense tax credits are an interesting dimension to informal activities – if you declare earnings you will be entitled to this earnings top up (and other in-work benefits such as the Child Tax Credit).

## Summary

2.33 Hartlepool's economy is improving, although there are still major disparities to be addressed and mixed performance against some key indicators. Skills are low and potentially falling – at least amongst residents – while employment is rising albeit from a very low base. Levels of self-employment have increased in recent years and now exceed the regional average although significantly lagging behind the national average. Business density is also low compared to the rest of the UK, although the situation is improving with new business VAT registration/deregistration slightly ahead of the curve.

2.34 High rates of economic inactivity and relatively low earnings amongst the employed would appear to provide the local economic conditions in which informal activity would flourish. The need low paid workers (part time and casual) and benefit claimants to enhance incomes would suggest significant scope for the development of 'necessity' entrepreneurship through the informal economy. If

this were indeed the case the informal economy could explain some of the gap in economic and employment performance between Hartlepool and other parts of the UK.

- 2.35 The extent to which the informal economy forms part of individual coping strategies that act as a barrier to formal activity will be addressed through the primary research with informal workers below. However, given the general profile of entrepreneurial activity in Hartlepool and the region (relatively lower incomes and no formal qualifications) it is possible to identify characteristics, which could suggest a relatively close fit between the formal and informal entrepreneur.



## 3 THE INFORMAL ECONOMY

3.1 This section provides a review of recent studies in the UK about the informal economy. It describes some of the characteristics of the informal economy emerging from the literature, what it is and why the informal economy is important to policy makers and local economies.

### Defining the informal economy

3.2 The 'informal economy' is variously known by a host of alternative names: the 'underground sector', the 'black economy', the 'cash-in-hand', and the 'hidden economy'. The Small Business Council (SBC) describes the informal economy as activity, which is essentially legal but operating under the radar of a variety of statutory and Government agencies.

*'Informal work involves the paid production and sale of goods or services which are unregistered by, or hidden from the state, for tax and/or benefit purposes, but which are legal in all other respects.'*<sup>10</sup>

3.3 This definition excludes 'non-cash' or unpaid activity and work that does not have to be registered (e.g. baby sitting) and thereby conforms with the standard government definition, which is composed of three types of activity:

- Evasion of both direct (i.e. income tax) and indirect (e.g. VAT, excise duties) taxes;
- Benefit fraud where the officially unemployed are not declaring whilst claiming benefit; and
- Avoidance of labour legislation, such as employers' insurance contributions, minimum wage agreements or certain safety and other standards in the workplace (e.g. hiring labour off-the-books or sub-contracting work to small firms and the self-employed asked to work for below-minimum wages)<sup>11</sup>.

3.4 This broadly relates to HMRC's interpretation of the scope of the informal economy, which includes:

- 'Ghosts' - all unknown cash based activity, and
- 'Moonlighters' - known activity registered for one legitimate source of income but also engaged in other unknown activity<sup>12</sup>.

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<sup>10</sup> The Small Business Council, Small Business in the Informal Economy, 2004, p3

<sup>11</sup> ONS, Identifying Sources on Entrepreneurship and the Informal Economy, 2006

<sup>12</sup> HMRC tackles the informal economy as part of its strategy to reduce non compliant behaviour.

## Measuring the informal economy

- 3.5 The informal economy is a notoriously difficult economic concept to grasp. It is even harder to measure and practically impossible to monitor from a statutory perspective. A recent report commissioned by the Office for National Statistics (ONS) to review existing data sources on entrepreneurship and the informal economy identifies the limitations in cross referencing existing information systems and the lack of consistent data. This study identifies that relatively little is known about how the informal economy relates to and transforms into formal activity.
- 3.6 The best data sources for the informal economy comprise UK locality studies conducted by academics and collated in the English Localities Survey; the Small Business Survey; the Family Expenditure Survey; Inland Revenue data on under-reporting of tax returns; DWP data on 'working whilst claiming' and HM Customs and Excise data on VAT compliance.
- 3.7 Quantitative methodologies for measuring unreported activity vary from state to state. In the UK the ONS uses the discrepancy between the aggregate amount of reported income and the invariably higher amount of reported expenditures to make adjustments to GDP calculations<sup>13</sup>. In this way an approximation of informal activity is included in the official national accounts. The 2004 Blue Book, produced by ONS, reports informal activity in the UK at 1.66% of GDP (approximately £17 billion).
- 3.8 However, estimating the size of the informal economy remains a contested subject. The Small Business Council have recently published a report, which measures the informal economy in the UK at 6.8% of GDP, although the Government<sup>14</sup>, and other independent bodies do not support this assessment.<sup>15</sup> Capisarow and Barber, in their Street UK study site European sources, which suggest that:

*"...the informal economy accounted for between 7–16% of GDP in Europe in the 1990s"*<sup>16</sup>

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<sup>13</sup> These adjustments are made based on figures reported in the government's household surveys.

<sup>14</sup> SBS, Government Response to the SBC Report on the Informal Economy, 2005

<sup>15</sup> The Chartered Institute of Taxation in their response to the SBC report have suggested that this figure 'would seem remarkably high'.

<sup>16</sup> Copisarow and Barbour p29

## Scoping informal activity

3.9 The existing research evidence is unclear as to whether informal activity is more prevalent in high or low income areas. Copisarow and Barbour, in their Street UK study, suggest that the reaches of the informal economy are likely to involve most of the population at some point or another. The suggestion here is that most people are, to a greater or lesser extent, complicit in creating the demand for an informal economy, whether working or trading within the sector, or commissioning services that are conducted by informal workers and businesses. However, Copisarow and Barbour suggest that based on their experience informal activity is higher in deprived areas.

3.10 The Small Business Council also recognise the wider involvement of all members of the community in the informal economy. However, in contrast to the Street UK study the SBC suggest that the informal economy is likely to involve relatively affluent people as much as – if not more than – people from deprived areas or living in poverty or on benefits:

*‘It is not primarily ‘marginal’ populations (e.g. the unemployed, people living in deprived areas) who engage in this work but those already in employment and residing in relatively affluent populations.’<sup>17</sup>*

3.11 There is some census within the literature about the particular sectors that dominate activity in the informal economy. Construction particularly home maintenance and repair, routine housework and household services, gardening services and caring are commonly cited as by far the most extensive sectors involved. Although it is recognised that the informal economy is far more diverse in its entirety it is also true that work in these sectors are likely to match the kind of skills that many individuals on the margins of the labour market will possess. These are also sectors that tend to be over-represented in the Hartlepool economy – with higher than average proportions of workers existing in personal service as well as ‘skilled’ trade sectors (see Table 5 below).

**Table 5: Key Employment Sectors in Hartlepool, Nomis 2005**

	Personal Service / Sales/Customer Service	Skilled Trades
GB	15.5%	11.2%
North East	17.7%	11.9%
Hartlepool	17.8%	12.5%

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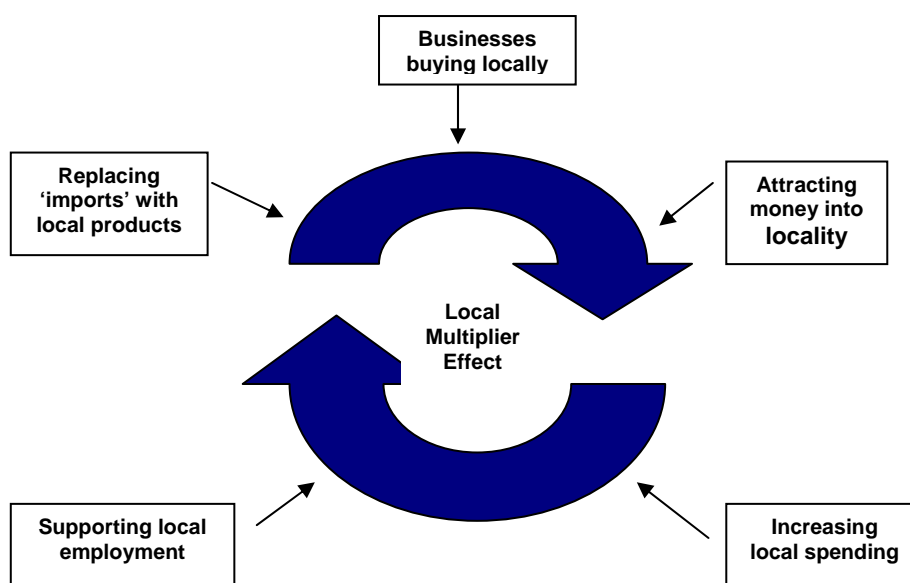
<sup>17</sup> SBC p8

## Why informal activity may be desirable in deprived areas

3.12 For many years the informal economy has been viewed as an economic problem rather than an opportunity – and one that has proved stubbornly elusive to many attempts at policing or restraining its growth. The research evidence finds that formal businesses are also significantly active in the informal economy, and that that informal activity is therefore not primarily about benefit fraud – although according to the Grabiner Report (Treasury 2000) some 40% of all benefit fraud involves under declaring of income and at any one time some 120,000 people are fraudulently claiming and working in the UK.

3.13 Entrepreneurship in deprived areas is a fraction of that in more prosperous areas for some very valid reasons. In many respects the growth of the informal economy can be seen as a straightforward response to the failures of the mainstream economy. In this context the informal economy can help to provide goods and services that are currently under-provided by the market and in some instances reconnect local areas and people with new business and employment opportunities. More importantly the informal economy can help rebuild communities through bottom up actions and interventions by introducing upward spirals of broad activity, that will in turn lock in local spending and build community capacity. Making jobs and broad economic activity stay in, or close to, local neighbourhoods starts to boost the local economy through a standard economic multiplier effect whereby what one person earns is spent in turn on another service. This enables economic gain to ‘stick’ to local areas and in turn to communities and individuals.

**Figure 2: The local multiplier effect** <sup>18</sup>



<sup>18</sup> A Westall, P Ramsden and N Foley (2001): *Micro-entrepreneurs: Creating enterprising societies*, London: IPPR/NEF.

3.14 In many senses it is true that informal activities are likely to keep larger proportions of money in a local economy. Firstly, there will be no tax or VAT disappearing to the Exchequer (although a proportion of receipts will be collected and spent by local authorities this tends to be a very small in amount in the UK relative to other advanced economies) and secondly cash in hand activities are likely to go to local people. However, the proceeds of informal (and illegal) activities will be disguised and potentially diverted into the wider mainstream economy.

## **Hartlepool and the informal economy**

3.15 Hartlepool has an established reputation for heavy reliance on informal associations and practices, whether this relates to the recruitment of labour or the awarding of contracts to local businesses. These informal associations, which have been described in a series of empirical case studies about Hartlepool by Prof. Lydia Morris, extend to the exploitation of casual labour and opportunities for informal economic activity<sup>19</sup>.

3.16 Morris (1987) describes the practices of 'scrapping', 'jobbing' and 'sea-coaling', which evolved as employment prospects in the town diminished. The 'jobber' canvases homes for repair jobs; the 'scrapper' collects scrap metal to be sold to yards; and the 'sea-coaler' collects coal from the beaches for sale to local coal merchants. These activities are self-initiated and conducted mainly by young men. Morris clearly identifies this practice as a response to structural unemployment and the increased casualisation of work. However, this study also points out that there are practical limits to the numbers who can be profitably involved in these 'occupations', which are fiercely competitive.

3.17 Morris (1994) also challenges some of the common misconceptions about informal activity amongst the unemployed and the notion that decline in formal employment would be offset by informal activity. Morris conducted a household survey and extensive interviews with families where partners were either, both working, both unemployed, or a combination of these extremes. Instances of unreported income and periods of undeclared employment were found to be the exception rather than the rule.

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<sup>19</sup> Morris L. (1987), 'Local social polarisation: a case study of Hartlepool', *International Journal of Urban and Regional Research*, vol. 11

Morris, L. (1993), 'Is there a British underclass?', *International Journal of Urban and Regional Research*, vol.17

Morris, L. (1994), 'Informal aspects of social divisions', *International Journal of Urban and Regional Research*, vol.18

Morris, L. (1995), *Social Divisions: economic decline and social structural change*. UCL Press, London

- 3.18 The general features of informal work where generally found by Morris to correspond to the notion of 'underemployment' and therefore practiced by both unemployed and employed, as well as men and women. Much of the informal activity was non-cash based and for those in receipt of benefits the risk of disqualification proved to be a major disincentive, even for those who take the risk it is rarely for more than the odd day or week's work. The conception that the informal economy is more active amongst the poor than the rich was not confirmed although Morris (1995) has suggested that concentrations of unemployment in family and friendship patterns could affect the potential for informal support. Payment for informal services is highest amongst the securely employed, however, there is no strong indication that the employed routinely purchase informal services from the unemployed.
- 3.19 The strength and vibrancy of the informal economy is a popular urban myth associated with most communities that have experienced massive economic decline. The myth perpetuates both negative and positive images. The extent to which Hartlepool has more of a cash economy than other places is unknown. However, there remains a popular perception both within and from outside of the area that Hartlepool's has a significant cash culture. An analysis of the proportion of cash transactions in some sectors, compared with other areas, would be required in order to assess this perception. The research conducted in Hartlepool suggests that informal activity is not as widespread as some might think. It is predominantly piece-meal and involves a small cash turnover compared with the formal economy.

## Summary

- 3.20 The Hartlepool Pilot has adopted a definition, which describes the informal economy as activity that is essentially legal but operating under the radar of a variety of statutory and Government agencies. Quantitative methodologies for measuring unreported activity vary from state to state and estimates supporting the size of the informal economy in the UK are uncertain. The 2004 Blue Book, produced by ONS, reports informal activity in the UK at 1.66% of GDP (approximately £17 billion). This figure is significantly less than less other published estimates. Research findings suggest that the individual instances of informal activity is predominantly piecemeal involving a small turn over of cash compared with the formal economy
- 3.21 The major UK studies have identified that informal activity is prevalent in the domestic household market (including home maintenance and repair, routine housework, gardening services and caring). Although it is recognised that the informal economy is far more diverse in its entirety it is also true that work in these sectors are likely to match the kind of skills that many individuals on the

margins of the labour market will possess. These are also sectors that tend to be over-represented in the Hartlepool economy – with higher than average proportions of workers existing in personal service as well as ‘skilled’ trade sectors.

3.22 A series of empirical case studies in Hartlepool have characterised the informal economy as a response to structural unemployment and the increased casualisation of work. The general features of informal work in Hartlepool have been found to correspond to the notion of underemployment and involving both employed and unemployed people alike. Both rich and poor people are to a greater or lesser extent, complicit in creating the demand for an informal economy, whether working or trading within the sector, or commissioning services. Additionally it is found that formal businesses are also significantly active in the informal economy, and that that informal activity is therefore not only about benefit fraud.

## 4 BUSINESS SUPPORT IN HARTLEPOOL

- 4.1 There is a disparate range of advice and services available to individuals who may want to establish or develop a business in the Hartlepool area. There are several contractual relationships in operation, between funding agencies, brokers and enterprise providers enabling the delivery of services, on behalf of Government. The main services include:
- Business start up support provided by Business Link and contracted through local providers
  - Test Trading, a self-employment option provided by Jobcentre Plus and contracted through a local provider
  - A range of enterprise services provided by Hartlepool Borough Council
  - Business Training provided by Hartlepool College of Further Education and funded through the Learning and Skills Council
  - Business start up support for residents of the New Deal for Communities initiative, provided by Hartlepool Revival, and
  - Business start up support for young people provided by the Princes Trust.

### **The strategic context**

- 4.2 There is no single source of information about business development in Hartlepool, no one point of access or contact for this range of activity, although Brougham Enterprise Centre is clearly recognised as the main premises from which business support is offered. Nor is there an over-arching business support partnership to drive and integrate the borough's enterprise strategy.
- 4.3 In this context the Informal to Formal Pilot represents an important development as the first multi-agency approach to business support in the area. Although the initiative is clearly focused on the informal economy and the potential to legitimise this activity the partnership as part of a broader business offer has utilised the pilot to provide co-ordinated and consistent advice and guidance to all individuals with entrepreneurial aspirations.
- 4.4 Business Link, funded through the Regional Development Agency, is the main business support agency in the region providing access to a range of services to new and existing businesses. Business Link has contracted with two independent enterprise providers: InBiz and DHP to provide start up advice to new businesses in Hartlepool. InBiz are also contracted by Jobcentre Plus to provide a 'Test Trading' option for their clients.
- 4.5 Hartlepool Borough Council is also a major strategic partner as well as direct deliverer of business support services in the town. Arguably the local authority



has a higher profile with regard to economic development and the range of business support services on offer. Relationships between Business Link and Hartlepool Borough Council have developed in recent years and there is evidence of joint working on local initiatives. The pilot has done much to improve this partnership approach, however, many business services available in the town are clearly identified as local authority 'products' operating outside of the Business Link brand and there is scope for improved co-ordination at this level.

- 4.6 The Tees Valley Chamber for Industry and Commerce is another strategic partner with a vested interest in the sub-region, and provides a dedicated policy officer to cover the interests of the business community in Hartlepool. However, the Chamber is considered too remote to meet local needs. Hartlepool is seen as a very insular community, even in relation to the rest of Tees Valley. There is also a view that these older networks do not represent the new businesses beginning to form in Hartlepool while regional and sub-regional approaches to business support are considered by some local partners to be inappropriate to Hartlepool.
- 4.7 'Enterprising Hartlepool' is a group of new entrepreneurs, which represents the beginning of a more appropriate business network for new enterprise in the town. Supported by Hartlepool Borough Council and Business Link the group is made up of new business starts established within the last few years and includes a mix of partnerships, limited companies and sole traders. The aim of this group is to encourage and promote inter-trade between members and to improve communication between small businesses in Hartlepool. Although the network is not formally linked in to the Pilot one of its key businesses has produced the publicity materials for the Get Serious campaign.

## **Business services in Hartlepool**

### ***Business Link***

- 4.8 Business Link provides access to a range of information, advice and support for new and existing businesses. This can include assistance with, tax returns and payroll, employment practice, health and safety, access to premises, export, IT and e-commerce, as well as business start up.
- 4.9 Business Link sees it's role as a market marker within the North East economy and operates a brokerage model for business support across the region. Rather than providing all the advice and help itself, Business Link will provide initial information and diagnostics before brokering appropriate support to meet the identified business need, fast-tracking customers to expert consultants. However, it is not primarily a funding agency providing access to grants and finance,

although information and signposting to appropriate finance forms part of the service.

- 4.10 Arrangements for new businesses sit outside of the brokerage model with start up provision contracted through local enterprise providers. This service is primarily focused on sole traders providing assistance with the generation and development of business ideas, market research and business planning – including cash flow projections for applications to finance and available grants. Continued support is provided once new businesses start trading, which may include assistance with book keeping, taxation and marketing. Specialist brokerage would then be available to new businesses in key sectors, if this service was required.

### ***Jobcentre Plus***

- 4.11 Self-employment is also an option through Jobcentre Plus programmes including New Deal and Work Based Learning for Adults (WBL). This provision is also contracted out through local providers and involves different eligibility criteria. Self-employment through WBL for adults includes a 13-week trial period for customers to ‘Test Trade’ their business idea whilst still claiming benefits. Any profits generated during this period of test trading can be invested into the business if the decision is taken by the client to continue in self-employment at the end of the trial period.
- 4.12 The availability of the self-employed option through WBL is still currently available although existing contracts with enterprise providers in Hartlepool have been significantly reduced. Self-employment is not a priority for Jobcentre Plus and the future of WBL is uncertain.

### ***Hartlepool Borough Council***

- 4.13 Hartlepool Borough Council provides a variety of business support services, including:
- Start up information and advice
  - Business premises – incubator units, and
  - Grant funding for business start-ups.
- 4.14 Brougham Enterprise Centre (BEC), which is managed by the council’s economic development department, offers start up premises for new businesses and also house’s other enterprise providers (DHP and InBiz) contracted through Business Link and Jobcentre Plus. The Centre, which is currently being upgraded with investment through One North East, is recognised locally as the main hub for all business support in the area.

4.15 The local authority also provides a helpline and brokerage service, which refers new customers to appropriate business support in the borough including DHP InBiz, Hartlepool Revival's Enterprise Development Service for residents of the New Deal for Communities and the business development services available through Hartlepool FE College.

### ***HM Revenue and Customs***

4.16 HMRC also provides educational support to small and medium business enterprises. The Business Support Team provides free seminars and workshops on a wide range of subjects targeted to assist those business facing new tax obligations.

## **Ensuring quality**

4.17 Ensuring a standard quality of provision across a range of services is difficult to achieve within present arrangements. Business Link is quality assured regionally to clear national standards. This standard covers internal account managers (accredited managing directors) and extends to external consultants and providers. There are, however, issues regarding the unevenness of quality standards between services for new and existing businesses. There are also concerns that some partners outside of the Business Link brand and active within Hartlepool are not qualified to offer business advice.

## **Summary**

4.18 The current business support arrangements in Hartlepool are complex and may present some difficulties to new and existing businesses looking for assistance. These arrangements may be preventing higher levels of business formation and growth in the town. They may also be impacting negatively upon the formal economy by failing to encourage or support the transition of informal business, through mainstream services, into legitimate activity.

4.19 There is a strong argument for building on the existing structures established by the Informal to Formal partnership to better integrate the wide range of services and to provide a broader business offer in Hartlepool. At the national and regional level Business Link is recognised as the main brand for business support. However, the perceptions of new business starts interviewed during this evaluation suggest that Business Link is not always a recognised or favoured brand at the local level where contracted enterprise providers and the local authority are more visible.

- 4.20 The role of Business Link, as a broker, is to provide one point of access to all the business support services available. This role needs strengthening. An overarching business led partnership would enhance existing arrangements and provide a shared strategic vision for the borough. However, the single Business Link brand would help significantly in the promotion and marketing of local business support. A one-stop shop or gateway approach, building on the investment at Brougham Enterprise Centre, would help improve the strategic co-ordination of all business services and provide a more integrated and customer focused service. Different routeways are important in meeting the different needs of business, however, customers interviewed as part of this study have clearly identified a single gateway as a vital aspect in making available services less confusing.
- 4.21 There is considerable scope within Hartlepool for developing a more outward looking business community, trading across the sub-region and further a field as well as improving the quality of business services to meet a defined standard and to satisfy all customers' needs.

## 5 STAKEHOLDER VIEWS ABOUT THE PILOT

5.1 A key requirement of the evaluation is to assess the views of key strategic and delivery partners involved in the pilot and evidence for this assessment has been drawn from face to face interviews. This section will address the various strengths and weaknesses of the partnership, the effectiveness of the delivery model and perceived successes and failures.

### **The partnership**

5.2 The pilot is a multi-agency initiative and the broad partnership is represented by key organisations that serve Hartlepool borough, including local and regional partners as well as central government departments. The Steering Group consists of representatives from the principal organisations that have a corporate interest in the aims of the pilot project, specifically:

- Business Link Tees Valley
- HM Revenue and Customs
- Hartlepool Borough Council
- DWP
- Jobcentre Plus
- One North East
- Small Business Service, and
- Street North East.

5.3 None of the partners have expressed any reservations about the make up or balance of representation in the partnership. However, local private sector employers are not currently represented and there are other local service providers, who we have consulted as part of this evaluation, including the FE College and Hartlepool Revive, who are not currently engaged in the delivery of the pilot.

### **Governance**

5.4 The Steering Group meets on a monthly basis to review progress against the project plan and there is also a regular providers meeting between partners and local enterprise agencies (DHP and InBiz) to resolve emerging issues in the delivery of the pilot. Governance of the partnership is perceived as relatively informal, and most stakeholders are satisfied with arrangements. However, there has been a notable turnover in organisation representatives, which some feel has had a detrimental effect on continuity and momentum.

- 5.5 Project management and secretariat responsibilities have been taken on board by One North East, with Business Link Tees Valley acting as the intermediary responsible for the coordination of the confidential assessment process and liaison with local enterprise agencies. Again most partners were satisfied with the various roles and responsibilities of partners although some felt that the management of the delivery plan and particularly the implementation of the assessment process, via local enterprise agencies, could have been more forceful.
- 5.6 There was also a Cross Government Working Group (CGWG), formally set up as a sub-group of the cross government Informal Economy Steering Group. The CGWG was formed to agree the question bank, to set and test the process of calculating and making the offer and to consider the queries arising from the Pilot. The CGWG consisted of the lead government agencies and included: HMRC; DWP; and HM Treasury.

### ***Strengths and weakness of the partnership***

- 5.7 Most partners were satisfied with the balance of representation and allocation of roles and responsibilities within the partnership. Partners also recognise that the multi-agency approach represents an important development in the area. There are, however, a number of underlying tensions within the partnership, which undoubtedly impacted upon the delivery of the pilot.
- 5.8 HM Revenue and Customs are viewed as an essential partner and it is clearly understood that the 'offer' of a confidential assessment cannot be made without HMRC commitment to the initiative. Yet feelings of mistrust have persisted amongst partners towards HMRC and what has often been perceived as an obsession with compliance and a highly inflexible position towards tax arrears. The extent to which this feeling of mistrust is real or perceived is difficult to assess. HMRC agreed that they would not invoke their powers to request financial information about new business start-ups in Hartlepool and this was indeed the case. However, the issue of trust cannot be underestimated and has had significant repercussions in the delivery of the confidential assessment, where local enterprise providers in particular have not felt adequately assured that the anonymity of informal traders could be protected.
- 5.9 It is possible that the levels of mistrust within the partnership have been exacerbated by the informality of arrangements between strategic and delivery partners, which have in many respects enabled a more inclusive partnership, but have also helped to communicate nervous messages to enterprise providers dealing with informal traders.

## **Attitudes to the informal economy**

- 5.10 Most partners are aware that the informal economy represents a diverse range of activity, including a hard core of informal traders who are unlikely to be encouraged to formalise their activity and who should rightly be pursued and prosecuted by Government.
- 5.11 However, there is a general understanding between local partners that the profile for many informal traders in Hartlepool is predominantly low value involving small cash turnover and infrequent activity. Many will have resorted to informal activity due to unemployment or under-employment and most partners within the partnership recognise this linkage and as a consequence the potential for the informal economy to act as an enterprising route out of poverty and into self-employment.
- 5.12 Arguably HMRC, with an over-riding focus on reducing the tax gap, are institutionally less disposed to consider the broader policy context of economic, social and financial inclusion, which other partners are grappling with on a daily basis. The evidence of mistrust between partners within the pilot is perhaps indicative of different organisational priorities as much as individual attitudes to the informal economy.

## **The delivery model**

- 5.13 The 'offer' of a confidential assessment (provided by HMRC, Jobcentre Plus and Hartlepool Council) is unique to the Hartlepool pilot. This feature represents a distinct difference in how informal businesses in the Hartlepool pilot are treated compared with the rest of the UK. The assessment process described in Figure 1 above shows how this should work. Critical to the delivery is the role of enterprise agencies in brokering initial discussions and referring clients for assessment using the Question Bank proforma.
- 5.14 It is apparent that this aspect of the pilot has been undermined by problems of trust in the partnership. Enterprise agencies responsible for brokering this initial process have felt that their clients may be deterred from using their services or exposed to HMRC scrutiny and have therefore been reluctant to pursue the offer. Most partners have been frustrated by the lack of information coming forward through the pilot. HMRC in particular cannot comprehend the difficulty in providing confidential assessments, since other agencies, such as Street UK, have managed to obtain similar information in other parts of the UK, including Newcastle.

- 5.15 Some partners have raised concerns about the management relationship between local partners and providers. There is a view that the consensual approach has not been successful and that a contractual relationship (with additional incentives and targets) was required with providers in order to deliver the terms of the pilot 'offer'. Enterprise agencies have faced a conflict of interest between delivering mainstream business services and brokering the pilot offer. In many respects the role of exploring informal practices with potential clients is clearly at odds with meeting performance targets for Business Link contracts. Business Advisors see their role as helping new businesses to start trading, which they are contracted to provide. There are a number of commercial risks for providers in probing for signs of informal activity, which can result in clients turning away from their services.
- 5.16 This practice of ignoring previous informal activity and helping clients to set up business is in effect a form of amnesty, which allows informal traders to legitimise their activity without risk of tax liabilities. The partnership have now responded to these by entering into an arrangement with the Citizens Advice Bureau (CAB), which is an agency recognised and respected for providing independent and impartial advice and not constricted by any potential conflicts of interest. However, this agreement to utilise CAB services is a recent development and we are therefore unable to assess improvements in the take up of the pilot offer at this stage.

## **The marketing campaign**

- 5.17 Although Business Link Tees Valley had an initial role in the marketing plan Hartlepool Borough Council has subsequently managed the campaign. It is not entirely clear to most partners how the local authority acquired this role and there is a view that Business Link should have taken more responsibility for the campaign given their key role as 'market makers' for businesses in the region.
- 5.18 Marketing has proved difficult but the campaign after a slow start and a number of set backs has started to achieve some momentum. The 'Get Serious' campaign has primarily featured in small advertisements in the Hartlepool Mail, although other media have been utilised including cinema programmes and beer mats. Plans to use bill boarding have been dropped by the council due to availability and cost. Proposals to advertise on local buses are now being explored.
- 5.19 Partners are generally happy with the 'Get Serious' strapline, although some would like a more explicit message to attract informal traders. The offer of a confidential assessment has not been communicated as part of the marketing materials to date. There is concern that the marketing needs to be more positive



and to emphasise the benefits of legitimising activity. However, it is generally agreed that as things stand the content of the 'Get Serious' campaign is preferable to the current HMRC campaign, which encourages the public to report traders suspected of evading tax.

- 5.20 In the main partners have been critical about the timing of the campaign, which was launched very late during the pilot. Additionally there are some concerns about the lack of an overall strategy to sustain awareness.

*'The campaign is less drip, drip and more tap on – tap off'.*

- 5.21 In terms of the look and feel of the marketing materials some have commented that the graphics are too soft and not hard hitting enough. Also that adverts are 'too samey' and do not make sufficient distinctions between one and another.

- 5.22 However, the series of promotional events for the campaign, which took place at the Historic Quays, have all been well attended and viewed by local partners to have been successful in tempting informal businesses to discuss their support needs and legitimising their activity.

## **Successes and failures of the pilot**

- 5.23 The partnership has not set itself targets by way of measuring success although evidence of informal to formal activity had clearly been anticipated. Despite the obvious failures to effectively promote the pilot offer there have been a number of successes, which the initiative has been able to claim. Not least is the commitment of local and regional partners to continue with the multi-agency approach to business development in Hartlepool. The partnership is clearly thinking in the longer term. The 'Get Serious' campaign is ongoing and now part of how enterprise is promoted in the borough and many of the lessons of the pilot are being acted upon. The CAB was engaged in the later part of the pilot to conduct confidential assessments.

- 5.24 Funding remains an issue and there is little prospect of additional sources to invest in the immediate future. However, there is evidence that interventions to address the informal economy are being successfully integrated into mainstream, business support services. Securing the future commitment of HMRC will be vital to ensuring this development.

## **Future developments**

- 5.25 Partners recognise that regardless of the perceived success or failure of the pilot the prospects for mainstreaming informal to formal activity are constrained by national policy. Greater flexibilities in the delivery of mainstream programmes,

negotiated through Local Area Agreements, may help to improve the position for local partners.

5.26 Hartlepool's submission for the second round of Local Area Agreements (submitted in February 2006) has not made any specific requests in relation to the informal economy. Local partners are sceptical about the prospects of opening up a discussion about informal activity through the LAA process. Nevertheless there could be opportunities for future conversations with central government departments, including HMRC and DWP about local freedoms and flexibilities in relation to tax and benefits.

5.27 Hartlepool is also in the process of applying for a Local Enterprise Growth Initiative, which will include the 'Get Serious' campaign as part of the bid.

## Summary

5.28 It is evident that the pilot has not been delivered according to the initial plan. The key issue for all partners has been the failure to assist more individuals to move effectively from the informal to formal economy. There are a number of reasons for this development and some findings point to a fault in the design of the pilot, and the potential conflicts of interest facing enterprise providers in implementing the confidential assessment. Providers have not been contracted or incentivised to deliver the 'question bank' and this consensual arrangement has not been enforced by the partnership. Underpinning this weakness is a general level of mistrust within the partnership regarding HMRC's willingness to protect the anonymity of informal traders coming forward for an assessment of liabilities.

5.29 However, there have been successes. The commitment to the partnership at the local and regional level has sustained beyond the pilot period and there is evidence that the informal economy is being addressed as part of a wider policy agenda and that interventions to encourage informal to formal activity are being integrated within mainstream business support services in the area. The multi-agency approach is now well embedded in Hartlepool and the partnership is thinking in the longer term. The 'Get Serious' campaign is ongoing and now part of how enterprise is promoted in the borough.

5.30 Ensuring future commitment to mainstreaming the initiative and scaling up activity across the Northern Way will depend upon local flexibilities to be secured through Local Area Agreements. Recommendations to improve the effectiveness of the pilot activity centre on the assessment process, including:

- Direct promotion of the 'confidential assessment' by the marketing campaign

- Contractual arrangements for the delivery of the assessment including targets and incentives, and
- Delivery of the assessment by a recognised and independent body.

## 6 KEY FINDINGS FROM SMALL ENTERPRISES

6.1 This section deals with the findings of the primary research detailing the key issues and emerging themes, which have surfaced from in-depth interviews with small enterprises in Hartlepool. We have considered four areas of investigation amongst our research cohort. Firstly, to examine the individual motivations for starting a business. Secondly, to draw out factors about the level and type of business support on offer to people within Hartlepool. Thirdly, to establish the level of awareness and views on the ‘Get Serious’ campaign. Fourthly, to generate discussion about the informal economy in Hartlepool.

### The sample frame

6.2 Nineteen people from seventeen enterprises were interviewed as part of this research<sup>20</sup>. Interviewees were recruited via different sources. This includes clients from local business support agencies, InBiz and DHP as well as Street North East, Hartlepool Revive and the Hartlepool Further Education College.

**Table 6: Source of interviewees**

Source	InBiz	DHP	Street NE	Other	Total
Enterprises	5	5	2	5	17

6.3 The interviews were drawn from a variety of people including:

- Businesses trading (the majority established within the last twelve months);
- Businesses currently in start up phase;
- Two individuals currently in receipt of Incapacity Benefit but with a clear intention to explore starting up in business in the foreseeable future.

6.4 Eleven of the total interviewed had been in receipt of benefits immediately prior to starting up in business.

6.5 Our sample included 10 men and seven women most of which were born in Hartlepool except for two newcomers from other parts of the UK and one from Russia. In terms of ethnicity, all interviewees were white. Data about age was not routinely requested, however, our assumption is that interviewees would fall into the following age groups.

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<sup>20</sup> Two of the new businesses interviewed were joint ventures.

**Table 7: Sample by age**

<b>Age</b>	<b>No.</b>
20 – 29	1
30 – 39	6
40 – 49	7
50 – 59	4
60s	1

### ***Confidentiality and participants' rights***

- 6.6 Due to the sensitive nature of questioning an individual about their economic activity (past or present) that might be informal or perceived as unlawful it is crucial to protect the confidentiality of participants. Unfortunately, many of the participants are potentially identifiable due to their particular experience or situation. In addition the recruitment methods and venue used (Brougham Enterprise Centre) to conduct interviews have not enabled the research team to completely ensure the anonymity of interviewees.
- 6.7 Not surprisingly this has had some effect on the interviews conducted but more significantly upon the analysis since we have needed to conceal information, which would reveal identities. While this clearly limits the amount of personal detail that can be provided we do not feel that it this will distract from the overall themes and issues, which have been raised.

### **Motivations to set up business**

- 6.8 This research examines the barriers, needs and opportunities for this group in order to produce not only an insight into business support and the informal economy, but equally a much greater awareness of the enterprise interventions needed. From our interviews a number of themes and reasons emerged as to why people decide to set up a business. The key themes were:
- **Aspirations:** Over half the research cohort highlighted this as a driver in setting up a business. This was a positive factor in financial terms as well as status, position and bargaining power. Interestingly even amongst those who had previously failed with several businesses in the past the desire to progress in life through owning one's own enterprise still held much influence. Other participants explained that they were simply fed up of life on benefits and didn't want a traditional low paid, low skilled job. This had motivated them into starting a business.
  - **Time of life:** For some this was a crucial factor. The main reasons discussed were that the children had grown and/or the mortgage paid off. They felt they had more time and money to invest in something they were abundantly clear would be a huge drain on both time and income. In

addition some mentioned having sold property and made the decision to invest in their own future by investing in a business. This mirrors the trend on silver entrepreneurship seen elsewhere within the UK.

- **Flexibility:** This was included in almost all our interviews as a positive reason for setting up a business. Control over the hours one worked and the style and manner in which one worked was mentioned. For some, there seemed to be almost a degree of over optimism about just how much flexibility running one's own business conferred.
- **Own boss:** The desire to be in control of own destiny and away from poor experiences of management was highlighted by several participants. This coupled with a desire to 'get it right' and 'do it better' in contrast to some participant's experience of poor working practices and processes in their previous employment.
- **Positive role models:** Two had been influenced in their decision by positive examples about others and felt encouraged to follow their lead. Significantly however none had been motivated by the Get Serious campaign.
- **Redundancy:** For some the cumulative experience of multiple redundancies had inspired them to set up a business.
- **External influence:** One had been advised by their probation officer and another by the immigration authorities to consider starting a business, using previously acquired skills.

6.9 In many instances the motivations to start up a formal business are not dissimilar to the factors, which result in informal activity, as we will consider below.

## **Business support services**

6.10 Participants have used a range of business support agencies, with some clearly using more than one agency for support. From our cohort it emerges that:

- 8 have used InBiz
- 6 have used DHP
- 5 have used Hartlepool Revive (NDC), and
- 2 have used the Womens Development Fund.

### ***Information***

6.11 There is evidence that a wide variety of information points exist signposting individuals to business support. The table below details the source of information which interviewees recalled.

**Table 8: Information sources for business services**

<b>Source of information</b>	<b>No.</b>
NDC resident group	1
Another business	2
Local newspaper	2
Via business link	1
Job centre	1
F.E. college	1
Leaflet	1
Yellow pages	1
Library	1
Probation officer	1
Immigration officer	1
Word of mouth: friends, family	3

6.12 It is clear that a range of information sources is vital, however, individuals mentioned the need for factual and consistent information about which services are available and where. Many felt that a more integrated approach to business support would help, perhaps through a central ‘one-stop shop’. A business start-up kit detailing all the services available in Hartlepool was also discussed.

6.13 There is certainly a good local knowledge amongst participants about what agencies existed in Hartlepool to assist business start up. However, there is also a view that agencies have little knowledge about what each other did. This suggests a need for streamlining and clarity to avoid confusion and duplication:

*“hearing the same thing said in a dozen different ways”.*

6.14 A few interviewees said they would have liked more information about certain aspects of their business, for example, VAT registration, different company structures and accounting.

### **Advice**

6.15 In general many were very pleased with the start up advice they had received, although some would have liked more. For some the focus in the business start up requirements is too short term focused and lacking in depth for longer-term development. Many start-ups would like more in-depth coverage about the realities of what is involved in developing a customer base and sustaining a business.

*“Things have taken off much slower than I expected. I was naïve. I signed off and now I have no funds. This industry takes longer to get clients and it costs to develop business. I am working 16 – 20 hours a day and getting no money. I didn’t realize there was so many forms and contracts that I need.”*

*“I am working longer hours than I thought. I didn’t think about the days working then all the other stuff like quoting for jobs and accounts.”*

6.16 One interviewee asked for advice on Working Tax Credits and how their benefits were affected. The business support agency could not provide this:

*“We tried to work it out ourselves. We have taken the plunge not knowing if we are going to get everything. See it as the only way out. It would put a lot of peoples minds at rest and would have allowed comfort and idea of income to ease minds.”*

6.17 This suggests the need for improving referral systems for tax credits and better off in work assessments.

### **Financial support**

6.18 Almost all interviewees have inquired about applications for business grants, with:

- 11 having received grants
- 2 waiting to hear about grant applications, and
- 3 having made initial enquires about grants but not yet applied.

6.19 It must be noted that some participants would not have considered starting a business without a grant. Amounts of grant funding available vary according to individual circumstances and criteria based on where people individual lived or the sector they work have led to some restrictions in potential business growth for some new starts.

6.20 The length of time taken to approve grant applications is also identified as a barrier to some individuals. Some felt their business started later than they planned as they were waiting on decisions regarding grants. Honest and timely feedback about grants and business plans is also required.

*“I had no feedback and was mis-advised. I was kept waiting about decisions on grants and lost money. I jumped through hoops and got no-where. It was very disheartening.”*

6.21 Improved access to loans are recognised by clients as useful to growth, expansion and training. Some enquiring about growth grants, were limited by existing savings (even though this money was required for essential business spend) while others could not access loans for growth due to a poor or non-existent credit rating.

6.22 Ongoing business costs were also an issue. These ranged from, for example, professional membership fees, photocopying for marketing, rent and other charges and costs of compliance with regulatory bodies.



### ***Business premises***

6.23 Business location and advice with premises is one issue mentioned by a few participants as less well covered by existing support services. It seems that the physical regeneration of Hartlepool, like many towns and cities across the UK has left an 'old and new town' feel to the place.

*"This part of Hartlepool is now dead, no one comes here, where you set your shop up is just as important as where you buy your house".*

6.24 However, some start-ups have clear understanding of the importance of location and have used this to their advantage. For example, one has set up a mobile food outlets on the edge of a retail park another has opened up a butcher's shop in an area flanked by six housing estates and poorly serviced by bus routes to the larger supermarkets a couple of miles down the road.

### ***Regulation***

6.25 Support in complying with regulatory requirements to deliver services and contracts, particularly in the public sector, has emerged in several contexts with interviewees. Over regulating and the cost of compliance are seen as prohibitive to most small businesses. Potential clients in the public sector are seen to be stimulating enterprise on the one hand, while simultaneously stifling it on the other.

*"over regulation is a stranglehold on small enterprise - it's no wonder the big boys are the only ones who can afford the costs of compliance".*

### ***Overall customer satisfaction with business support***

6.26 Of the total cohort most would recommend the business support agencies in Hartlepool and many are positively glowing in their endorsement.

*"I would not have done it without them. I couldn't put a value on their help".*  
*"I was given all the encouragement in the world and it has all turned out right"*  
*"Support is second to none...they have even called in to see how I was doing"*

## **The 'Get Serious' campaign**

### ***Awareness***

6.27 Just over half of the interviewees were aware of the 'Get Serious' campaign, the majority of whom had seen the adverts in the Hartlepool Mail. Interviewees became aware of the campaign through more than one source:

- 8 had seen adverts in the mail
- 1 had seen the cinema advert, and
- 1 had seen the cinema programme.

6.28 Overall the campaign did not influence people's thoughts on starting a business – most were already undergoing the process of business start-up or thinking about it anyway. Interviewees felt there were mixed messages about the aims of the campaign and that the message was unclear – who it was aimed at and why. Most assumed that it didn't apply to them.

*"I don't see it for people with an idea, it should be more targeted"*

6.29 A couple of people asked whether or not research had been done beforehand on who the likely target group should be and how best to reach them.

*"It is ill thought out and too broad. It should have been tested more on people through the agencies."*

6.30 Most interviewees commented that the campaign should focus on how easy and straightforward it is to start a business. The perception was that people are 'frightened' of bureaucracy for example paperwork, tax etc. In reality this was not borne out and through the support they received from the agencies, the process of business set up was demystified. Interviewees were keen to promote the simplicity and felt this approach would be more successful in generating new start-ups.

*"'Serious' is a serious word and would put me off. 'Give it a go' or 'it's easy' would appeal to me more"*

### **Responses to the campaign**

6.31 Four of the interviewees contacted the helpline as a result of the campaign. Two of these found the service unhelpful and went directly to other agencies. One participant emailed the campaign on three occasions and had no response. Another felt the campaign was aimed at supporting existing businesses to grow and made contact about financial support to help expand his business. This person was disappointed to find out that they probably would not qualify because they had monies in the bank:

*"The business was going quite well. I was told I had too much money and couldn't go for it. I am prudent with my money. I have cash in the bank to pay for advertising and wages. I was caught in a catch 22 situation".*

6.32 This was the second negative experience they had with business support:

*"I cancelled the appointment after speaking with them as I jumped through hoops last time and didn't get anywhere. I didn't want to waste time on this route. Cash is key for growth and I have no access to it. Even a business loan would be fine."*

6.33 These responses would suggest a reasonably high level of interest from those who have been exposed to the campaign, although their subsequent experiences in seeking support have not been positive.

### ***Targeting informal businesses***

6.34 A small number of interviewees felt there was a 'sinister agenda' behind the campaign. Our participants represented a wide range of backgrounds; some had a feeling of déjà vu about the campaign and felt that it echoed more readily with their previous experience with drugs support teams and probation services, than with positive attempts to set up a business. As one participant said:

*"If you seriously want to get clean we can help - that message has been drummed into me in the past but doesn't fit right with setting up a legit business".*

6.35 Another commented that:

*"It sounds like it means 'stop fiddling or we'll catch you'"*

6.36 Some people suggested that the campaign should focus more explicitly and positively on the benefits of setting up a legitimate business, for example, emphasising increased turnover and long-term success – if indeed this is the purpose of the campaign.

6.37 What is clear is that many are unaware of the campaign and even for those who are it has had no influence on their motivations to start a business. The 'informal' subtext to the campaign is not widely recognised but perhaps obvious to some who are sensitive to this message. Many detected a negative message in the 'Get Serious' strap line and felt that a focus on more positive outcomes would have longer-term success. In the main, interviewees did not feel that the campaign would encourage people to formalise their existing activity. The message needs to be more direct, explaining what would happen if informal businesses came forward.

### **Informal economy themes**

6.38 There was a general perception amongst our research cohort that the informal economy has always existed in Hartlepool and had actually increased in the last decade or so, particularly as more permanent forms of employment had left the area. However, those who had lived elsewhere in the UK did not perceive the informal economy in Hartlepool to be any different - larger or smaller - than other areas.

6.39 In general most accepted the informal economy as an inevitable feature of any town or city, although some expressed concerns about having to compete on price against informal businesses and the need to develop a level playing field so that legitimate businesses are not disadvantaged. This theme of 'fair trade' is reflected across the divide between informal and formal activity, with many

informal businesses citing compliance with regulations as a main barrier to legitimate growth.

### ***Factors influencing informal activity***

6.40 Interviewees did feel that Hartlepool people were enterprising and thought that the reason Hartlepool has fewer businesses and lower business start-ups than other places in the country could be connected to the informal economy. Many had views about the general factors, which might enable the informal economy to flourish, including:

- **An underlying culture of worklessness** stimulated by a dependency on benefits and the reluctance to lose income by formalising activity
- **Insecure temporary employment** and the demise of the 'job for life' creating the conditions for supplementary income
- **The need to survive**, which were highlighted as an important feature of life on benefits but also by those with experience of unstable employment and the self employed
- **Low aspirations and self confidence** seemed to account for why so many enterprises stay within the informal economy
- **Illegal activities**, such as drugs, fuelling a cash economy and the demand for informal activity
- **Over regulated markets**, which prohibitive compliance and encourage people to bypass regulations and work informally
- **Market testing**, for some the informal economy offered the ideal opportunity to test self-employment as a viable option.

### ***Factors influencing the transition from informal to formal working***

6.41 Many participants had been involved in the informal economy as active economic agents including as buyers and suppliers. However, it became clear from our conversations that some of those who claimed not to be working informally had in fact worked for at least some of their time on an informal cash basis.

6.42 Discussions about the informal economy in Hartlepool focused on the factors, which influenced their decisions to legitimise their business, including:

- **Fear of reprisals:** The risk and fear of being caught out and the possible consequences is a significant motivating factor for a few
- **Security:** Growing dissatisfaction with the constraints and uncertainties of a 'hand to mouth' existence
- **Business growth:** Evidence that goods or services that began life as a person's hobby now presented real business opportunities

- **Self-confidence:** Growing confidence through age, experience, and the realisation of a marketable skill had influenced some participants decision to formalise their business
- **Wanting to partner with an organisation in the formal economy:** The desire to work with bodies within the formal economy acted as a trigger factor
- **Quality of working life:** In particular the desire expressed by many of the older participants to work more sociable hours.

### ***Assessment of liabilities***

6.43 Most of participants in the research were not asked by enterprise agencies whether they were trading informally nor offered an assessment of tax liabilities. Some assumed that this would have been unlikely due to the nature of their industry and their business-to-business activities. However, four companies claimed to have undergone a formal assessment. This figure is clearly at odds with the official record of assessments referred through Business Link as part of the pilot 'offer' and cannot be explained by enterprise agencies.

6.44 For many unfamiliar with the pilot 'offer' the idea of a confidential assessment was not immediately attractive. The very notion that they could contact and meet with a complete stranger and disclose all their personal details was beyond their experience and something that they would be very reluctant to consider:

*"Am I really going to talk about all my personal details to a complete stranger?"*

6.45 For our cohort, many were quite clear that in order to engage with this sort of assessment they would need full information about what the process involves; what parties would be privy to their details; what guarantees there would be against repercussions from all government agencies and immediate feedback on the outcome. The issue of trust in government agencies is critical in this process, although some commented that people would be more likely to trust local support agencies.

6.46 There are clear messages for the marketing strategy about how best to communicate the offer of a confidential assessment and the positive benefits of trading formally. It needs to be borne in mind how 'hard to reach' some people working informally might be and any messages about the availability of an assessment would need to be targeted in the estates and neighbourhoods in which it is assumed informal working occurs.

### ***Views about tax amnesties***

6.47 For some even the offer of amnesties would not work in attracting informal businesses to legitimise their activity. A few interviewees suggested that a

managed transition period from informal, for example through test trading approaches with benefit run-ons could be more beneficial:

*“A stepped approach might be easier to swallow and carry much less risk”.*

6.48 However, a number of interviewees had experienced previous problems when agreeing their ‘test trade’ arrangement between support agencies and Jobcentre Plus resulting in loss of benefits and feeling that agreements had been reneged. According to the testimony of interviewees these experiences are not isolated and contribute to an increased feeling of mistrust in dealing with official agencies.

## Summary

6.49 The uncertain prospect of sustainable employment has undoubtedly stimulated a rise in new business growth and local people are aware of a change in attitude to enterprise in Hartlepool. Indeed previous residents as well as newcomers have been attracted to the town by its location, incentives and potential to grow a business. Many of the new enterprises that we spoke to were positive about their experiences of setting up their business and the support that has been offered to them in doing so. Although improvements to the general integration and co-ordination of services were indicated.

6.50 Most new businesses in Hartlepool are aware of the informal economy and attribute this to the erosion of permanent employment in the town. Informal activity is seen within the context of coping strategies and the need to survive. It is recognised that the informal economy may be both a cause and effect of changing attitudes to enterprise and self-employment. In many instances the motivations to start up a formal business are not dissimilar to the factors, which influence the transition from informal to formal activity.

6.51 The ‘Get Serious’ campaign has not had sufficient profile within the town and would also appear to be communicating mixed messages. The availability of a confidential assessment of liabilities for informal businesses is largely unknown. As such it has been difficult to assess the benefits of this ‘offer’ in stimulating the transition from ‘informal to formal’ activity as part of the pilot initiative. It is evident that improvements would need to be made to the existing campaign to provide a convincing argument to informal traders about the advantages in legitimising activity. A key barrier is a lack of trust in those government agencies administering the assessment.

## 7 ASSESSING IMPACT

- 7.1 The evaluation aims to assess the contribution, which the Informal to Formal Pilot has made to increasing local enterprise rates and reducing the tax gap by assisting informal businesses in their transformation to legitimate activity.

### **Measuring transition from informal to formal activity**

- 7.2 It is clear from our review of the partnership that the pilot has not been implemented according to the original design. Difficulties in conducting initial enquiries about previous informal activity have resulted in few referrals for government agencies to assess potential liabilities. Only one referral for an assessment of liabilities has been made during the pilot. In this case the assessment process was unable to identify liabilities based on the limited information provided and no further action was taken by organisations in terms of recovery of debts. Consequently there is no information to quantify the number of businesses that have legitimised their activity as a result of the pilot activity.
- 7.3 Furthermore the pilot has not established any specific targets for either the number of confidential assessments to be conducted or the number of informal to formal business transformations. Neither has baseline information been identified against which the performance of the pilot could be assessed. A recent report by the Office of National Statistics suggests that HMRC data can be provided to assess levels of activity, including:
- HMRC national insurance class 2 contributions, and
  - HMRC data on under reporting on tax returns.<sup>21</sup>
- 7.4 Although this information has been requested HMRC have confirmed that data cannot be provided at the local area level. Data is either not kept in a form that allows easy identification of postcodes (e.g. NIC class 2) or the information (e.g. the tax gap) is not available.
- 7.5 Qualitative information gathered via our interviews with small enterprises suggests that there are a number of informal businesses, which have legitimised their activity during the pilot. However, it is unclear whether this transition has occurred as a result of the pilot intervention – very few have been aware of the pilot offer or marketing campaign. What is more certain is that a number of informal businesses will routinely access formal start up opportunities without prompting or additional interventions to achieve this.

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<sup>21</sup> ONS, Identifying Sources on Entrepreneurship and the Informal Economy, 2006

## Measuring increased enterprise

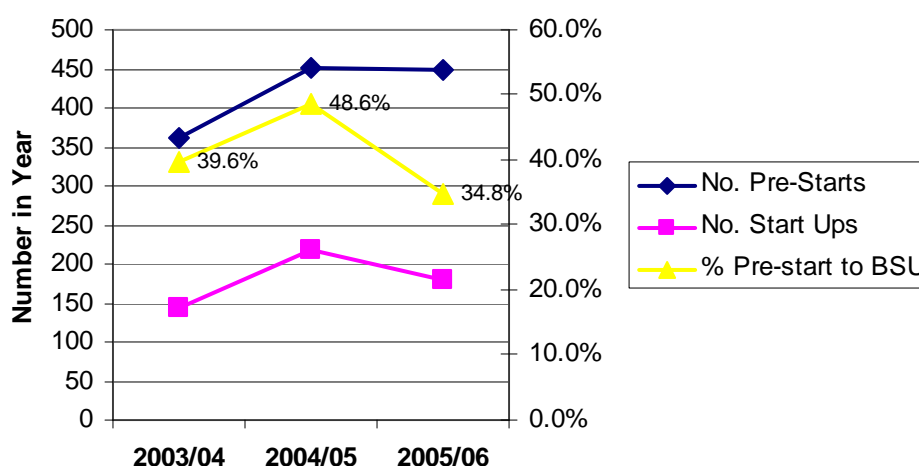
7.6 In terms of assessing the broader aims of the pilot to increase enterprise activity there is information, which we can measure to provide an indicator of general performance in the area. The management information provided by Business Link (for the period April – December, 2005) suggests that business activity has increased during the pilot, with 449 potential businesses having received pre-start up advice and 179 formally setting up their new enterprise. In terms of assistance provided to both pre-start and business start up clients performance in Hartlepool has improved on previous years and is anticipated to exceed previous achievements by the end of the year.

**Table 9: Number of new businesses assisted in Hartlepool**

	2003/04	2004/05	April – Dec 2005
No. Pre-Starts	361	451	449
No. Start Ups	143	219	179

7.7 However, the proportion of all pre-start enquiries, which progress to full business start up status, has decreased in relation to previous years, with start up rates at 34.8% in 2005/06 compared with 48.6% in 2004/05 and 39.6% in 2003/04. Although figures may well improve by the end of the financial year this is not necessarily an indicator of worsening performance.

**Chart 9: Number of Pre-start and business start ups in Hartlepool, Business Link, 2006**



7.8 The age profile for new businesses in Hartlepool during the pilot is consistent with previous years and with the general findings about enterprise in Hartlepool. New business starts are in the main concentrated within the groups aged 30 years and more. Significantly, the proportion of new start-ups by younger age groups assisted during the pilot has declined, particularly in the 18 – 24 age group. Although in absolute terms the numbers are projected to exceed previous performance.

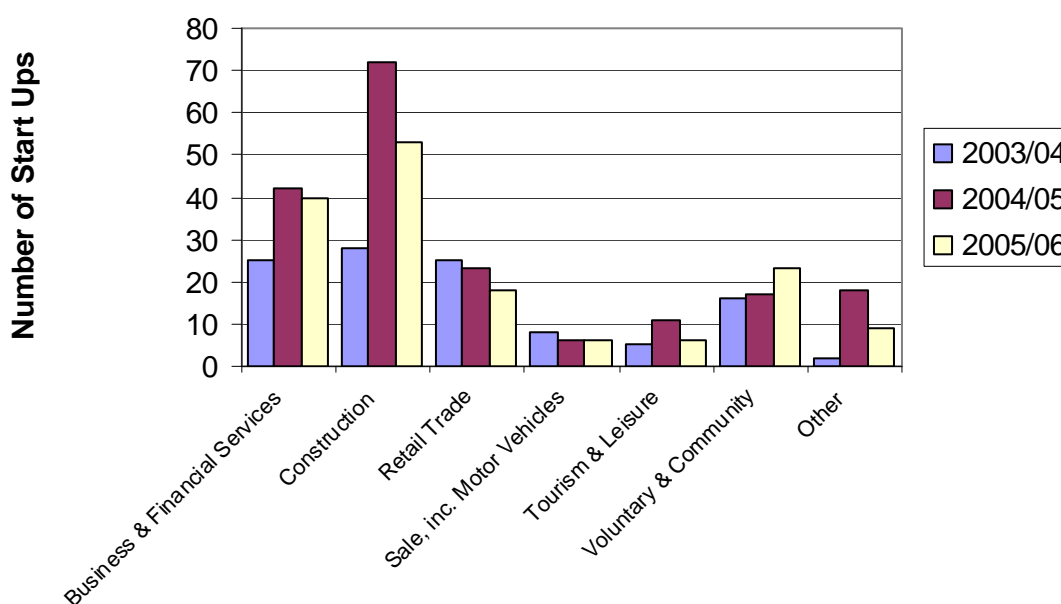


**Table 6: Age profile of Business Start Ups in Hartlepool, Business Link, 2006**

Age	2003/04			2004/05			2005/06		
	Pre-Start	BSU	% convert to BSU	Pre-Start	BSU	% convert to BSU	Pre-Start	BSU	% convert to BSU
18 - 24	23	2	8.7%	38	12	31.6%	60	11	18.3%
25 - 30	45	9	20%	63	23	36.5%	88	27	30.7%
31 - 39	93	35	37.6%	134	61	45.5%	128	56	43.8%
40- 49	70	27	38.6%	110	42	38.2%	99	34	34.3%
50+	52	17	32.7%	57	32	56.1%	47	19	40.4%
Unknown	78	53	67.9%	49	49	100%	27	32	-
<b>Total</b>	<b>361</b>	<b>143</b>	<b>39.6%</b>	<b>451</b>	<b>219</b>	<b>48.6%</b>	<b>449</b>	<b>179</b>	<b>34.8%</b>

7.9 An assessment of the main sectors for new businesses in Hartlepool also suggests fairly consistent trends between the pilot and previous years. Construction continues to represent the largest sector for new start ups and based on our understanding of the informal economy suggests that a larger proportion of informal businesses are likely to make a transition to formal status in this industry.

**Chart 10: Number of Start Ups in Hartlepool by Industry (SIC), Business Link, 2006**



7.10 There is also an improved performance in the number of self-employed outcomes recorded by Jobcentre Plus, and this despite reductions in contracted provision. Jobcentre Plus have seen relative year on year increases in the numbers taking up provision as well as both the number and proportion of recorded self-employed outcomes.

**Table 7: Number of Starts and Outcomes, Self-employed Option, Jobcentre Plus, 2006**

	2003/4	2004/5	2005/6
No. Starts on Provision	292	222	181
No. Job Outcomes	180	147	133
% Job outcomes	61.6%	66.2%	73.5%

7.11 Information for VAT registered businesses during the pilot programme will not be available until 2007/08.

## **The impact on worklessness and enterprise in Hartlepool**

7.12 The numbers of new businesses will obviously make a contribution to both improved employment and enterprise rates in the borough. VAT closure rates are encouraging and suggest improved performance on the regional and national average.

7.13 Assuming year on year improvements in new business formations and greater survival figures than the national and regional average then there will clearly be a net benefit to the local economy. However, the scale of this challenge is formidable. Hartlepool requires an additional 4,700 residents in employment to achieve parity with the national average, of which 1,200 will need to be in self-employment to bring this in line with Great Britain. In terms of VAT registrations, Hartlepool requires an additional 350 businesses to achieve parity in business density rates for the region and an additional 1,400 to meet the national average.

7.14 Current improvements in performance are not sufficient to meet these targets, with the possible exception of self-employment rates, where the number of referrals and new business start-ups in the last three years would suggest that bridging the existing performance gap is achievable. However, an over concentration of activity in this area would raise wider issues about the appropriateness of self-employment for many customers of Business Link and Jobcentre Plus.

7.15 Many of the new businesses, which we interviewed as part of this research, commented on the apparent ease with which they have started their new business. Many felt that setting up a business was easier than they had commonly perceived, and that the benefits outweighed the obstacles. However, most had little knowledge or understanding about surviving in the longer term. Some talked about the peaks and troughs, which they had not considered at the outset. Indeed almost 50% of those currently trading are not making a profit or paying themselves a living wage.

*“It is hard in the low months and managing the seasons. There is no money in the bank as I’m paying rent and I can’t get into debt so I’m not taking wages”.*

*“Its disheartening not taking a salary and getting benefits for rent and council tax...I have to take my books down to the benefits agency...I would love to be making money so I don't have to go there.”*

- 7.16 Central to the pilot's aims and objectives is the assumption that legitimising informal activity will help improve local economic performance, by lowering dependency rates and improving the tax gap. However, it does not necessarily follow that legitimizing informal activity will achieve this objective. A recent evaluation of the self-employment option for New Deal concluded that policies, which encourage the long term unemployed and other vulnerable groups into self-employment might have significant personal and financial consequences<sup>22</sup>. Encouraging the transition of informal activity into the formal economy could result in less cash circulating locally and greater levels of deprivation in poor areas.
- 7.17 Business Link and Jobcentre Plus programmes are predominantly focused on sole traders many of which have been previously unemployed. Unemployed clients assisted by Business Link have increased in recent months reflecting changes to Jobcentre Plus contracts and decreasing referrals for self-employment options. Longitudinal information on survival rates is required to assess the long-term impact of enterprise support on workless populations and the benefits to the public purse.

### **The tax trap - liabilities and credits**

- 7.18 The evaluation has identified an issue relating to tax credits, which the pilot has not managed to test. Informal businesses making voluntary disclosures resulting in an acceptance of the assessment of tax liabilities and subsequent recovery action may be eligible for working tax credits and child tax credits. The amount of tax credits received will vary according to income and will be based on individual circumstances but a working family with two children can claim tax credits if their household income is below £60,000.
- 7.19 An assessment for tax credits would not take into consideration existing debt, although in effect back payment of liabilities would be subsidised by the state through the tax credit regime. This raises the question about HMRC determination to recover back liabilities and the need to apply more flexibility to this position. In many cases informal to formal businesses would qualify for tax relief, which would minimise any benefits to the public purse.

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<sup>22</sup> Self employment as a Route off Benefit, Keller et al, DWP, 2002

7.20 More generally the evaluation identified a low level of awareness about the potential benefits of tax credits and the need to further promote tax credits in making the transition from informality back to work or legitimate self-employment.

## Summary

7.21 There is insufficient information to quantify the impact of the pilot in terms of its primary aim to assist the transition from informal to formal business activity. Qualitative data gathered from interviews with new enterprises suggests that there are a number of businesses that have legitimised their activity during the pilot, although this is unlikely to be directly attributable to the initiative.

7.22 In terms of the pilot's secondary objectives, there is evidence of improved enterprise rates. Business start up rates for Business Link and Jobcentre Plus programmes are on target to exceed previous achievements by the end of the year, with over 300 businesses having been established during this period. Despite these improvements current performance is not sufficient to bridge the existing enterprise gap between Hartlepool and the UK, with the exception of self-employment rates which are achievable given continued levels of growth.

7.23 The profile of the new business start-ups would suggest that many are struggling to generate sufficient profits in the short to medium term and this will clearly have an impact on longer-term survival. An over concentration on policies to encourage the long term unemployed and other vulnerable groups into self-employment could have a counter productive effect. Improved information on long-term survival rates is required to assess the long-term impact of enterprise support on workless populations and the benefits to the public purse.

## 8 CONCLUSIONS AND RECOMMENDATIONS

- 8.1 The purpose of the 'informal to formal' pilot was twofold. Firstly the initiative aimed to encourage businesses in the informal economy to legitimise their activity and reduce the tax gap. Secondly the pilot intended to promote enterprise in the borough and help direct new businesses to appropriate support.
- 8.2 It is clear that the failure to effectively promote and deliver the confidential assessment of liabilities has resulted in insufficient data to measure the transition from informal to formal activity. Only one informal business has taken up the offer of an assessment, which did not result in any recovery action, while over 300 new businesses have started trading in Hartlepool during the pilot period. Information has not been systematically collected to assess how many of these new starts have previously been informal, although the findings of our interviews with new enterprises suggests that some informal businesses are accessing mainstream business support and government funds.
- 8.3 The reasons for the low take up of the confidential assessment are primarily to do with the low level of awareness about the offer. Enterprise agencies responsible for implementing the 'question bank' have faced a conflict of interest. There are a number of commercial risks for providers in probing for signs of informal activity, which can result in clients turning away from their services. This is clearly at odds with meeting performance targets for Business Link and Jobcentre Plus contracts. Providers have not been contracted or incentivised to broker the assessment process and this consensual arrangement has not been enforced by the partnership.
- 8.4 Underpinning this weakness is a general level of mistrust within the partnership regarding HMRC's willingness to protect the anonymity of informal traders coming forward for an assessment of liabilities. The extent to which this feeling of mistrust is real or perceived is difficult to assess. It is perhaps indicative of different organisational priorities. However, the issue cannot be underestimated and has had significant repercussions in the delivery of the pilot.
- 8.5 It is also evident that a more convincing argument needs to be presented to informal traders about the advantages of legitimising activity. Evidence from our interviews with new enterprises in Hartlepool suggests that a key barrier to assisting the transition from informal to formal activity is a lack of trust in all government agencies administering the confidential assessment of liabilities.

- 8.6 However, the pilot was always more than a testing ground for the confidential assessment process and the project has achieved some notable success with regard to the broader aims and objectives to promote enterprise. Business start-up rates are on target to exceed previous year-end figures and there is evidence of improved business formation rates within the borough, although this increase could be attributable to a number of factors other than the pilot activity.
- 8.7 Furthermore the commitment of local and regional partners to tackle the associated problems of low enterprise and informal activity has been strengthened. The multi-agency approach to business support in Hartlepool will continue beyond the pilot phase and partners are committed to the wider policy agenda in which the informal economy occurs. Indeed the main success of this initiative is the extent to which interventions designed to encourage the transition of informal to formal activity are now integrated as part of mainstream business support in the area.

### **Key findings of the evaluation**

- 8.8 This assessment of the pilot initiative has identified, within the partnership, an informed understanding of the informal economy and a progressive approach to dealing with this complex problem. The informal economy in Hartlepool is rightly characterised by local and regional partners as a response to structural unemployment, the increased use of casual labour and under employment. It is also widely acknowledged that the scope of informal activity in Hartlepool is predominantly piecemeal with a small turn over of cash compared with the formal economy and involving both employed and unemployed people.
- 8.9 Although it is recognised that the informal economy is diverse in its entirety it is also true that informal activity is concentrated in sectors likely to match the kind of skills that many individuals on the margins of the labour market will possess. These are also sectors that tend to be over-represented in the Hartlepool economy – with higher than average proportions of workers existing in personal service as well as ‘skilled’ trade sectors – and amongst new business starts.
- 8.10 High rates of economic inactivity and relatively low earnings amongst the employed would appear to provide the local economic conditions in which informal activity would flourish. The need for low paid workers (part time and casual) and benefit claimants to enhance incomes would suggest significant scope for the development of ‘necessity’ entrepreneurship through the informal economy.

## **Recommendations to assist the transition from informal to formal activity**

8.11 Recommendations for improving the transition from informal to formal activity are primarily delivery focused, although there are major policy constraints determining what can be achieved at the local level. It is recognised that suggestions for the improvement and mainstreaming of pilot activity in Hartlepool and more generally across the North East and Northern Way will be contingent upon the introduction of greater flexibilities in the tax and benefits system. This will require policy changes at the national level.

### ***Information requirements***

8.12 Establishing a baseline is essential to determining the success of any intervention. The development of the informal to formal initiative in Hartlepool and across the Northern way will require an understanding of current levels of HMRC activity. Estimating the impact of partner activity will remain difficult without this baseline position. It is recognised that HMRC are currently unable to provide data at 'postcode level', however, efforts should be made to report on activity at local area levels, in line with other Government information.

8.13 Longitudinal information on survival rates is also required from Business Link and Jobcentre Plus to assess the long-term impact of enterprise support on workless populations and the benefits to the public purse.

### ***The 'offer' of a confidential assessment***

8.14 The offer of a confidential assessment is unique to the pilot initiative. The partnership has responded to the difficulties experienced in implementing this process and an arrangement with the Citizens Advice Bureau to conduct assessments was agreed towards the end of the pilot period. It is essential that HMRC continue their commitment to this 'offer' in order to build on the lessons of the Hartlepool pilot and to enable future expansion and roll out of activity across the North East and Northern Way. Improvements to the implementation of any future 'offer' by HMRC can be made by:

- Direct promotion of the 'offer'
- Contractual arrangements for the delivery of the assessment including targets and incentives, and
- Delivery of the assessment by a recognised and independent body e.g. CAB.

### ***Test trading***

- 8.15 The informal economy offers the ideal opportunity to market test business ideas and to consider self-employment as a viable option. Continued commitment to a self-employment option by Jobcentre Plus will enable benefit claimants to legitimately test trade. Greater flexibilities are required in the benefits system, which will improve:
- Transition from welfare to work, including benefit run-ons, and
  - A review of the restrictions on the amount of earnings to be retained over and above benefits.

### ***Funding***

- 8.16 Funding constraints to support informal to formal activity, including test trading through Jobcentre Plus programmes, should be addressed with a range of mainstream (Business Link) and discretionary funding available in the region and via requests for local flexibilities through Local Area Agreements. Future applications for Local Enterprise Growth Initiatives (LEGI) should make explicit reference to the informal economy.
- 8.17 The offer of grant funding is generally attractive to most new businesses although not necessarily a significant motivation for informal business to legitimise their activity. Access to finance for existing businesses with a poor credit rating, perhaps along the Street UK model, may prove more effective in increasing general enterprise levels.

### ***Promotion and awareness***

- 8.18 There was some confusion amongst new business starts about the precise message of the 'Get Serious' marketing campaign. It is unclear who the campaign is targeting and how it relates to other initiatives or business support already on offer. Future plans to encourage the transition from informal to formal activity, in Hartlepool or elsewhere, will need to:
- Target informal activity with clear and precise messages about the benefits of legitimising activity alongside the availability of local business support services
  - Promote Working Tax Credits alongside the 'offer' of a confidential assessment of tax liability, if available, as part of the general package of support.

### ***Integrated services***

- 8.19 There is a strong argument for building on the existing structures established by the Informal to Formal partnership to better integrate the wide range of services and to provide a broader business offer in



Hartlepool. Different routeways are important in meeting the different needs of business. However, customers have clearly identified a single gateway as a vital aspect in making available services less confusing, including a one-stop shop referral system utilising existing provision, including information and advisory services, business brokers, Benefits and Tax advisors.

- 8.20 For informal traders and benefit claimants a more integrated approach to benefits and tax advice is required. This could include the development of a programme for multi-skilled advisors, who are familiar with the issues within the informal economy and the technicalities of more than one tax or benefits system.

### ***Local flexibilities for tax liabilities***

- 8.21 The Local Area Agreement framework provides the instrument for progressing discussions with central government about local flexibilities. Many local and regional partners would like to see a more flexible and incentivised approach to tax liabilities. HMRC could be considered as part of - or subject to - anything agreed within the LAA framework, this could feasible include voluntary disclosures. A regional alliance across local authorities in the Northern Way would help to lobby for more local flexibilities through the enabling measures of the LAA as well as the LEGI process.

### ***Informal practices by formal businesses***

- 8.22 The research literature has found that formal businesses are also significantly active in the informal economy, and that that informal activity is therefore not primarily about benefit fraud, or sole traders operating beyond the reach of government agencies. However, this pilot has not addressed the informal practices of formal businesses, including cash-in-hand payments for casual labour with non-payment of the national minimum wage and national insurance contributions.
- 8.23 It is recommended that the scope of future activity should consider the broader scope of informal activity and how legal businesses may be assisted to regulate their informal practices. This might include:
- The creation of new 'institutions' for exchange of labour to replace reliance on the informal economy, for example, brokering services / casual labour to small businesses that require additional staff
  - Peripatetic support (HR and other services - accounting/ legal etc.) for small businesses looking to grow within the formal economy, and

- Improved management of procurement contracts, particularly in the public sector, to deter the use of informal labour by private businesses in the delivery of government contracts