

# The Informal Economy

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# 1 INTRODUCTION

**The Community Links Social Change series draws together information from existing reports detailing our position and track record on significant, complex issues which we, as a multi-purpose organisation, are engaged with on several levels.**

This edition focuses on the informal economy. We highlight the extent and impact of cash-in-hand work, summarise our recent research and set out our key recommendations for harnessing the informal economy to help people move out of poverty.

The harsh economic climate and rising unemployment will increase the number of people relying on the benefit system and its inherent traps. It is anticipated that the UK will experience a corresponding growth in the informal economy, as people find alternative ways of providing for their families. Informal economic activity is driven by a number of complex and inter-related issues for people in deprived communities, including low benefit rates, low wages, rules which limit the hours that can be worked and the lack of affordable and flexible child care. For many, the tax and benefit system is hard to understand, difficult to navigate and no longer suitable for 21st century working arrangements.

## Definition

We have adopted the definition most commonly used:

*'Informal work involves the paid production and sale of goods or services which are unregistered by, or hidden from the state for tax, benefit and/or labour law purposes, but which are legal in all other respects.'* EU (1998)

Illegal or criminal activities such as drug dealing or prostitution have been excluded, as have exchanges of unpaid work.

## Did you know?

The informal economy is known by several names:

- Cash-in-hand work
- Hidden economy
- Grey markets
- Working off-the-books
- Ghosts
- Moonlighting

Case studies are included throughout this booklet, which illustrate the complex characteristics of informal paid work experienced daily by many people. Names have been changed to assure anonymity.

## Vision

To eliminate the reliance on cash-in-hand work, and to help people make the transition into formal paid work and out of poverty.

## Campaign

To achieve our vision we campaign for:

- changes in the benefits, tax credit and tax systems
- help and guidance at a local level for people wishing to make the transition
- greater public understanding of the link between poverty and cash-in-hand work.



**Join us** Visit  
[www.neednotgreed.org.uk](http://www.neednotgreed.org.uk)  
and get involved

## About the 'Need NOT Greed' Campaign

Community Links lead the Informal Economy 'Need NOT Greed' Campaign [www.neednotgreed.org.uk](http://www.neednotgreed.org.uk), which is supported by a wider coalition of 50 groups including the TUC, Oxfam and the UK Coalition Against Poverty.

## 2 NEED NOT GREED: CASH-IN-HAND IS A SURVIVAL STRATEGY

**People working cash-in-hand do so out of need not greed – attempting to support their families whilst navigating a complex and outmoded tax and benefits system, explains campaign co-ordinator Maeve McGoldrick**

*“I am not a statistic, I never wanted to have a life on benefits, I used to work and I really enjoyed it. When I worked I was a real grafter I loved being financially independent. Now when I work it’s for cash-in-hand, and it’s at times when things are really tight. Living in fear of being caught is a terrible way to live, but what is scarier is giving up benefits altogether and having no safety net.”*

These are the words of Susan, a single mum who has been on benefits for a number of years after her partner left her, pregnant and with a child aged one. Benefits are the only way to survive for many parents in the UK; often they are not enough to live on, and by no means do they provide a comfortable life for parents, let alone their children.

With very little money to spare, if anything, after all bills are paid people often turn to cash-in-hand or informal paid work to make ends meet. Irregular, temporary and low paid; this informal work provides emergency cash at times of unexpected and unbudgeted expense. Easing the pressure, people can afford to put food on the table, heat the house, pay the debt collector knocking on the door, or simply buy a birthday present for their child. It means that at certain times of the year, such as Christmas, when money gets really tight parents can make a few extra pounds once or twice a week, in the pub or on a building site. Many people do not intend to play the system when they do cash-in-hand work, they quite simply do so out of need, not greed.

Their situation is being made worse by the increasing cost of living as a result of the economic downturn. As we all begin to feel the pinch and think twice about what we cannot afford, families living in poverty think only about what they can afford. As the weekly shopping increases and bills total up to more than income, counting the pennies for many families in poverty can mean choosing between food and warmth. The daily struggle becomes even harder.

***“There are currently very few incentives to encourage people off benefits... current rules trap people on benefits and therefore in poverty”***

People are increasingly forced to find extra cash as quickly as possible, thinking about today and not tomorrow. Often this means an increase in personal debts and families spiralling further into poverty. Loan sharks and pawn-brokers are

providing the extra help that is absent from government policy. Job cuts mean that the vital progress of getting more lone parents into work could soon be undone. As a survival mechanism, parents turn to cash-in-hand work, to make a small amount of emergency money to help ease the effects of the credit crunch.

The underlying cause of child poverty is unemployment among parents, in particular mothers. This is due to a lack of adaptable, affordable high-quality childcare and a shortage of part-time and flexible jobs. Increasingly jobs are no longer simply nine to five, and often low-paid jobs are based on commission. The times have changed and yet the benefits system does not reflect current labour market conditions. There is no in-between stage, no stepping stones for parents to cross from benefits into work and no long-term safety net to eliminate their fears.

There are currently very few incentives to encourage people off benefits. In fact, current rules trap people on benefits and therefore in poverty. If a parent wishes to enter employment they will automatically lose valuable ‘passport’ benefits such as free school meals and prescriptions. They will be entitled to enter the quagmire which is Working Tax Credits. They will have to pay large amounts of tax. The existing ‘work incentives’, such as those financial incentives which aim to progress people off benefits into work, such as

'earnings disregards', permitted hour rules, and in-work credits, desperately need to be reviewed and changed. For example, 'earnings disregards' count as income when housing benefit and council tax benefit are calculated, acting as a disincentive to work. The government is giving with one hand, but taking with the other, effectively offering no incentive for those who do want to take small steps back into the world of work.

***“We are campaigning for practical and modernised benefit laws, a better understanding of life in poverty”***

To address poverty and people being forced into cash-in-hand work, Community Links is leading the 'Need NOT Greed' Campaign, calling for long overdue and much-needed changes in

the benefits system. It is a national campaign with a coalition of over 50 organisations, including Oxfam, TUC and the UK Coalition Against Poverty, who share the goal of ending the reliance on cash-in-hand work as a way for hard-working, ordinary families to survive.

We believe government must be willing to fully understand the real motives behind cash-in-hand work for it to change policy, so that it is no longer a necessary way of life for many in this country. Policymakers must recognise the changes needed to enable people to make the transition into formal paid work, gradually coming off benefits and out of poverty. We are campaigning for practical and modernised benefit laws, a better understanding of life in poverty and an approach which uses 'fewer carrots and more sticks', which a recent National Audit Office report proved to be more effective.

If Susan and her children are to escape poverty then the Government must recognise and utilise the value of cash-in-hand work; as an attempt to move people towards financial independence, developing self-esteem and confidence. Changes in national policy to enable the transition from cash-in-hand work to formal employment will help government hit the child poverty and employment targets. Yet for national policy changes to be effective the government and society must truly understand and differentiate between people working cash-in-hand out of greed and those forced into doing so out of need.

*Originally published on the Compass website  
([www.compassonline.org.uk](http://www.compassonline.org.uk)) September 2008*

## Case Study 1: Rasheed

### Surviving the benefits trap

“I have lived and worked in Newham for eight years. My daughter is disabled and my wife cares for her full-time. I declare less hours of work to the benefits office, as I would not be eligible for some of the benefits that I get if I declared fully.

“With the extra care needs of my daughter, given that my wife doesn’t work, I have to do something. I do some cleaning work and I don’t declare this as it is paid cash-in-hand. It’s mostly people I know, local businesses and homes. This gives me an extra £150 per week and I have been doing this for four years now. I worry about this situation in case I get caught but I feel I have no alternative but to do it. To be able to look after my family and take care of their needs – I have to continue working in this way unless I win the Lottery.

“Poverty makes people work informally because they are struggling to make ends meet. If you are in extreme need you won’t think twice about taking cash-in-hand work. You can’t tell needy people to stop working informally because that is the way they survive and look after their families; you have to provide an alternative in order to stop this. The minimum wage should be increased to £8 per hour at least. I also think that people on low pay should be allowed to keep some of their benefits especially Housing Benefit or should not be taxed. Most of the people I know say that they could do without other benefits but not Housing Benefit because rents are high in this area.”

# 3 HOW MUCH, HOW MANY AND WHO'S DOING WHAT? SOME STATISTICS

**The informal economy is a complex and important part of the UK economy. Evidence suggests that a considerable number of people participate.**

- The EU estimates that the informal economy accounted for between 7-16% of GDP in the EU in the 1990s (Williams & Windebank, 2002).
- In the UK, the annual informal economy represents 12.3% of GDP or around £120 billion (Schneider, 2002).
- At least 2 million vulnerable workers are involved (TUC, 2008).
- Informal economic activity across all OECD countries has been rising over the last decade, although the UK has one of the lowest levels in the EU.

As with the formal economy there is an array of different types of work across several sectors involved in informal paid work. It is as vastly complex as it is diverse.

According to the Rockwool Foundation's four-country research study in 2000 (and subsequent research done by SBC/DTi, 2004; and ONS, 2005) about 47% of informal economic activity in the UK is concentrated in the construction sector, including home repairs and maintenance, 24% in consumer services (repairs and personal services, such as hairdressing and cleaning) and 14% in manufacturing.

*“there is an array of different types of work across several sectors involved in informal paid work”*

## Case Study 2: Saira

### Barriers to work

“The money I get in benefits is not enough for me to live on with my son. Some people out there think because you get these benefits you are comfortable, which is not the case. I still struggle to pay my bills. Finding cash-in-hand work is a struggle for survival. You have to think of ways to get by.

“The needs are even greater if you have children. I know for a fact that the percentage paid for childcare by government doesn’t go far enough. It would not entice me to go into formal work.

“I started working informally because of the long wait for papers from the Home Office. Should I have spent four years sitting and waiting? Also, I can’t be sure that if I took a formal job an employer would put up with my frequent hospital visits or absence from work. I have a medical condition that means that I have to attend hospital check-ups monthly and sometimes I get unwell because of the medicines I take.

“At times I feel well enough to work, but if I got a regular job and then became unwell, it is very difficult to regain benefits, so I decide to keep benefits and work off the books – if and when I can.”

# 4 POSITIVES AND NEGATIVES OF CASH-IN-HAND WORK

**The cornerstone of developing an understanding of cash-in-hand work is to know why people work informally. The focus has too often been on the negative aspects of informal paid work, for example, the exploitation, lack of legal protection and risk of injuries. For customers there are no guarantees or recourse with substandard work or products.**

*“In the last two years I have been working for cash-in-hand. I know what I am doing may be benefit fraud, but I had no choice. I was being threatened by the people I owed money to and I had to do something before the situation got out of hand. I couldn’t use my benefits to pay debts as that’s my family’s lifeline, and I owed a lot.*

*Most people who work informally have multiple problems. It’s because they have a poor educational background, never had a decent job, single mothers with childcare issues, like me, those who are in debt, like me ... it’s very difficult to get out of such a situation and find proper work. You feel trapped.”*

**A Newham resident**

Our research has shown that informal paid work can have a positive role in peoples’ lives, providing an income, keeping them from poverty, developing confidence and skills, and building social capital.

People working informally often benefit socially as well as economically, maintaining a positive self-identity along with getting bills paid. It operates as a means to access paid work where this might be difficult in the formal sphere, a situation that affects diverse groups such as people with poor educational or vocational qualifications, those who have been out of work for a period of time (for example, due to ill-health or long term unemployment), and people from abroad who are disadvantaged by less well-established social networks or whose qualifications are not recognised in the UK.

## Positive consequences of the informal economy

- Increases income
- Provides employment
- Increases self-confidence
- Improves skills
- Widens work experience
- Develops the habit and routine of work
- Maintains economic activity where it might otherwise not exist
- Provides income at times of crisis or key life events such as having a baby, losing a formal paid job or covering the cost of a death in the family
- Helps smooth the burden of 'expensive' times in the year, for example, during Christmas or school holidays
- Offers greater flexibility in terms of working hours and conditions
- Has reduced barriers to entry, so provides employment for those who otherwise find it difficult to gain formal paid work
- Fosters an entrepreneurial spirit
- Supports the formal economy: a large percentage of earnings from informal paid work are spent in the formal economy.

## Negative consequences

Despite the fact that the informal economy supports the formal sector and plays a part in redistributing wealth, there are some problems associated with it. There is a lack of training and sustainability, workers' rights may be ignored, and there is a lack of redress for customers. The informal economy can be harmful to individuals, businesses and society as a whole. Individuals and businesses can be disadvantaged where they do not declare work.

- **Employees working informally:**
  - lack employment rights such as the minimum wage, sickness pay, tax credits, working hours directive

- risk injury, ill-health or death due to poor health and safety conditions
  - cannot access contributory benefits such as the state pension
  - lack bargaining rights
  - limit their future employability due to lack of evidence of previous employment
  - cannot acquire a reference from their employer
  - cannot obtain financial credit
  - risk detection and prosecution.
- **Customers employing informal labour:**
    - possess no legal rights if work is substandard
    - hold no guarantees as to process or product with regard to health and safety, quality or ethical concerns.
- **Businesses operating informally:**
    - suffer a lack of legal protection
    - endure restricted access to capital and business support
    - risk detection and prosecution.
- **Societal impact:**
    - informal businesses create a culture whereby formalised businesses are tempted away from complying with employment law
    - informal employment weakens collective bargaining, thereby worsening workers' rights
    - tax avoidance and benefit fraud result in a loss of state revenue, which in turn hinders the ability of government to pursue socially beneficial initiatives
    - loss of state revenue may cause a rise in taxes which can in turn encourage an expansion of the informal economy, leading to a descending spiral

- undeclared work skews statistics (such as employment figures), meaning that public policy is based on inaccurate information. This may make policies less effective
- some believe that the greater the number of people flouting any law, the less respect there is for the law in itself.

### Case Study 3: Naomi

#### Working around childcare

“It has been very difficult for me to find a job because of the long period I have spent out of work. I looked after my children when they were younger and it is now difficult to get into formal employment.

“I lack experience and confidence because I have not worked formally for 18 years and don’t have any new technology skills, like using a computer. Now that my children are older I am able to study and when I finish my course I will look for a job. When you haven’t worked for so long it is a big step to go back into formal working and I think there should be more support than available currently.

“I have been doing cash-in-hand work as a hairdresser for about six years. I work from home. When my husband left I couldn’t manage and the children were young. I claimed benefits but did not have enough money to live on.

“I never talk about being on benefits as I am embarrassed and I think I would lose my benefits if I declared my small income from hairdressing. My customers have a low income and it helps them to come to me as my charges are much lower than in the salons.”

# 5 SUMMARY OF COMMUNITY LINKS EXISTING RESEARCH INTO THE INFORMAL ECONOMY

**LinksUK, the national team of Community Links, shares our 'on the ground' experience with politicians and civil servants in Westminster to lobby for changes to policy affecting the people we work with. We do this by conducting participative research, which informs our national communication and policy campaigns. The following summarises our recent research into the informal economy.**



*The full text of each is available for free download from the Community Links website:  
[www.community-links.org](http://www.community-links.org)*

**We also have a dedicated 'informal economy' website. For more information, case studies and to join the 'Need NOT Greed' campaign visit:  
[www.neednotgreed.org.uk](http://www.neednotgreed.org.uk)**

## **People in low-paid informal work: Need NOT Greed**

'Need NOT Greed' is a research programme supported by the Joseph Rowntree Foundation. It explores the experience of people on low incomes, doing informal paid work, including those working cash-in-hand or undertaking undeclared work whilst claiming benefits. The study is based on one-to-one interviews with people engaged in informal paid work, and follow-up focus groups with practitioners and policy-makers.

We found that people in some deprived areas work informally, out of 'need not greed', in response to poverty. They feared going without basics such as food and heating or facing mounting debt. Three basic issues underpinned most of the informal working in this study: low benefit rates, low wages and rules which limited the hours that people can work. Participants believed that the tax and benefit system created disincentives to returning to formal work, such as the

*“people in some deprived areas work informally, out of ‘need not greed’, in response to poverty”*

loss of related benefits (for example, free prescriptions) and administrative delays affecting essential income. Respondents wanted to work and had a wide range of underused skills. They felt working informally offered them: increased confidence, skills and work experience, financial support, and potential pathways into formal work. There were also wider social benefits affecting families and communities.

This report aims to improve understanding of the impact of informal working and recommends that government should develop appropriate strategies to harness the informal economy or risk missing its anti-poverty targets.



For the full report visit:  
[www.community-links.org/our-national-work/publications/people-in-low-paid-informal-work](http://www.community-links.org/our-national-work/publications/people-in-low-paid-informal-work)

## **Self-employed and Micro-entrepreneurs: Informal Trading and Journey towards Formalisation**

Small cash-in-hand businesses could revitalise the economy in London's most deprived communities if they were not penalised and instead encouraged to grow. Typically, it takes two years to move a new small business out of the informal and into the formal economy.

This report strengthens our understanding of the UK's informal economy through its examination of the experiences and attitudes of

self-employed traders. Providing insights into how real people start-up and run small businesses in some of the most deprived parts of London, the report reveals how perceptions, expectations and cultural differences impact on informal economic activity and can prohibit formal participation in the 'mainstream' economy.

We categorise people who are either 'getting by' – engaged in informal economic activities but cannot expand their activity beyond finding 'just enough' work – and those who are 'getting ahead' – engaged in economic informal activities and taking active steps towards a transition into the formal economy. The findings of this report confirm that formalisation is a process, not an event. People are moving from claiming benefits to paying tax yet the journey along this path is not straightforward and there are no standardised routes.

Recommendations include:

harnessing the informal economy by embedding it within local and regional economic development strategies; increasing targeted marketing and advertising by government agencies; adjusting tax and benefit rules; and establishing programmes to support and advise businesses to formalise, delivered by local organisations.



For the full report visit:  
[www.community-links.org/  
our-national-work/  
publications/self-employed-  
and-micro-entrepreneurs/](http://www.community-links.org/our-national-work/publications/self-employed-and-micro-entrepreneurs/)

### **Self-employed people in the informal economy: Cheats or Contributors?**

Government should encourage and support entrepreneurs out of the informal economy, not simply seek to penalise them. This is the message from a report co-produced by Street(UK) and Community Links, based on a survey of Street(UK) clients – all self-employed people hoping to become legitimate, bankable small businesses.

*“Government should encourage and support entrepreneurs out of the informal economy, not simply seek to penalise them”*

In developing nations, 'micro-entrepreneurs' trading informally are praised for their initiative and enterprise. Significant international aid programmes are even designed to support their activities. In the UK, however, the focus is almost exclusively on examining these enterprises for evidence of criminal activity.

This report presents a grassroots insight into the practical issues, based on the evidence of those currently trading informally. The

report also contains wider conclusions and recommendations on a subject that that demands far more attention from mainstream organisations, particularly government policy-makers and regulators.



*For the full report visit:  
[www.community-links.org/our-national-work/publications/self-employed-people-in-the-informal-economy/](http://www.community-links.org/our-national-work/publications/self-employed-people-in-the-informal-economy/)*

## **Cash-in-hand and working rights of young people**

Students on Community Links' Community Development course carried out a survey of young people about their knowledge of working cash-in-hand and their working rights. Over 70 young people aged 14 to 25 and from a wide range of backgrounds, took part. Among the recommendations were that accessible information on working rights should be incorporated into the education system; that

there should be more professional jobs available for younger people; and that government should reconsider differentiated minimum wages for each age group.



*For the full report visit:  
[www.community-links.org/our-national-work/evidencepapers/](http://www.community-links.org/our-national-work/evidencepapers/)*

## **Understanding MPs and their views about the cash-in-hand economy**

A number of MPs were interviewed to understand their attitudes towards the informal economy. Discussions were focused on discovering who MPs think works informally, their reasons why, what consequences this has and what should be done as a result.

This report explains how the work was conducted, highlights some general lessons drawn from working with MPs, before summarising the findings and conclusions.



For the full report visit:  
[www.community-links.org/our-national-work/publications/](http://www.community-links.org/our-national-work/publications/)

## Prospects For Enterprise

A report by Dr. Andrew Travers, University of Exeter, uncovered the motivations for people working informally, and highlighted why current government policy in this area needs re-thinking. This evidence paper (no.2), written in 2000, kick-started Community Links' subsequent research and policy campaigns on the informal economy.

The report produces a very different picture of informal economic activity to the one that can be inferred from policy provision. Interviewees were motivated by moral values, and at the same time were suffering from stigmas that set them apart from the wider society. Drawing on academic analysis of the lives described by the sample, the evidence paper shows the 'hidden morality' of informal workers and examines the routes taken out of informal economic activity.

***“Interviewees were motivated by moral values, and at the same time were suffering from stigmas that set them apart from the wider society”***



For the full report visit:  
[www.community-links.org/our-national-work/evidencepapers/](http://www.community-links.org/our-national-work/evidencepapers/)

## Case Study 4: Jane

### A time of crisis and debts

“I am a single mother of four, the youngest is six, and the eldest is 19 – just started university. I have been out of work for five years now. I have done various jobs in the past – care assistant, betting shop attendant and waitress. I left school at 16 with no qualifications.

“In the last two years I have been working for cash-in-hand. I do four evenings a week at a local betting shop. I ran into debt problems and the only way out was to find some way of earning some money to pay back. I couldn’t use my benefits to pay debts, as that’s my family’s lifeline, and I owed a lot. But a Good Samaritan – who was my former manager – offered me this cash-in-hand job.

“I work four hours Tuesday to Friday. I get paid £100 cash on Friday evenings. I know what I am doing may be benefit fraud, but I had no choice.

“I was being threatened by the people I owed money to and had to do something about the situation before it got out of hand. My family was being threatened if I didn’t pay up. I borrowed money for urgent problems, but the lenders were loan sharks, not a bank. I suspect they are money launderers because they pass themselves off as a business, but they have no physical address. The way they deal with their customers it looks dodgy. When you fail with repayments, they send some big guys round your house to threaten you.”

## 6 WHAT COMMUNITY LINKS IS DOING

**Since 2000 linksUK, the national team of Community Links has taken a particular interest in the informal economic activities of small businesses, the self-employed, and employees because the informal economy has a significant impact on the lives of many people we work with, and plays an integral role in their experience of poverty.**

We have found that whilst informal paid work can take people out of 'absolute' poverty, enabling them to pay the rent or the debt collector knocking on their door, it may trap them in 'relative' poverty. Workers outside the 'mainstream' do not have access to the national minimum wage, holiday or sick pay, or legal protection. Our research also shows that informal paid work can have a positive role in peoples' lives, developing confidence and skills, and building social capital whilst keeping them from poverty.



*Visit our dedicated website:  
[www.neednotgreed.org.uk](http://www.neednotgreed.org.uk)*

Over the last nine years we have:

- Conducted extensive **evidenced-based research** to raise the level, and change the tenor, of debate about poverty and informal paid work in deprived neighbourhoods. Partners include Joseph Rowntree Foundation, ACBBA/SIED, City Parochial Foundation, Jobcentre Plus and Exeter University
- Published over 16 **reports and articles** on various aspects of the cash-in-hand/informal economy
- Secured extensive **media coverage** for our work on the informal economy, which has appeared in over 70 journals and on over 30 broadcasts including radio (Radio 4 Today programme, Radio 2

lunchtime show, LBC) and TV programmes (BBC London News and BBC Politics Show)

- Developed an **Informal Economy Consultancy Service** to help local authorities and RDAs understand the contribution of informal paid work to their local economies. We measure size and scale, we talk to 'real' people, and we help turn the findings into strategy and practical action
- **Advised** government departments, voluntary and community organisations, academics and the media about the diversity and complexity of the UK's informal economic activities
- Led the Informal Economy **'Need NOT Greed' Campaign** ([www.neednotgreed.org.uk](http://www.neednotgreed.org.uk)), which is supported by a wider coalition of 50 groups including the TUC, Oxfam and the UK Coalition Against Poverty
- Contributed to **Advisory Bodies** including National Audit Office Value for Money 2007 project: 'HMRC and the Hidden Economy'; Institute of Fiscal Studies and the National Council of One Parent Families 2007 project: 'Mini-Jobs'; and in 2008-09 the Child Poverty Unit's Benefit Take-Up Taskforce
- Hosted a **government secondment** from HM Revenue & Customs (HMRC). As a result HMRC's central compliance team established a new informal economy unit. Pilots were set up in the regions to aid the transition of small businesses to formal trading, and an advertising campaign encouraged people to make the transition. In 2007, HMRC developed an informal economy strategy which describes an 'escalator' approach, moving away from a punitive approach, towards more sophisticated approaches, including raising awareness, educating, supporting, and rehabilitating.

## Our future work

Over the coming three years Community Links will continue to focus on securing our vision of eliminating the reliance on cash-in-hand work, and to help people make the transition into formal paid work and out of poverty. The difficult financial climate and increased poverty which drives more people into cash-in-hand work, makes this task increasingly important. We are focusing on three activities.

## ● **Building the evidence base through research**

We will continue our evidence-based research into the informal economy. Current research projects include one with Jobcentre Plus to improve the support offered by statutory employment agencies in east London to those working informally. A second – with Toynbee Hall – is investigating informal work practices of east London’s curry restaurants.

## ● **Expanding our Informal Economy Consultancy Service**

We will extend our Informal Economy Consultancy Service to help Local Authorities and Regional Development Agencies understand their local informal economies. Contact us to discuss how we can help you to fully understand your local economy, the hidden as well as the recorded, harness untapped potential, and invest in the interventions necessary to support local people out of the informal economy.



*Download our brochure:  
[www.community-links.org/  
our-national-work/informal-  
economy-consultancy-service/](http://www.community-links.org/our-national-work/informal-economy-consultancy-service/)*

## ● **Escalating the ‘Need NOT Greed’ Campaign**

Our specific objectives for the Campaign are to change national policy within the benefits and tax systems to incentivise people to take up formal paid work. We want to involve all government departments with responsibility for the informal economy in developing a joined-up strategy to harness cash-in-hand work. We want to contribute to a wider public debate about the informal economy and hope to raise the level and change the tenor of debate. Transforming local service delivery could encourage people to formalise cash-in-hand work and move out of poverty, ensuring that employment laws are upheld and vulnerable workers are protected.



*Join the ‘Need NOT Greed’  
Coalition. Get involved at  
[www.neednotgreed.org.uk](http://www.neednotgreed.org.uk)*

## Case Study 5: Joe

### Striving to study

“I managed to go through university because I had an informal temping job. On benefits alone, it would have been next to impossible. Benefits levels are very low. Sometimes you wonder if those who set the rates for benefits ever tried living on them. They are awfully inadequate.

“I worked informally throughout the time I spent at university and it was a matter of keeping my head above the water rather than cheating the system. I had to take care of the needs of my children in the best way I could, which in this case was carrying on with temping work, but not declaring it.

“The second problem is the administrative nightmare of a service the benefit offices provide. When I started the temping job, I initially informed my local benefits office and coped well on reduced benefit because it was a part-time job. But when I stopped working, they kept me on reduced benefits as if I was in work, despite the fact that I had notified them.

“It took weeks of telephone calls, visits and letters to rectify that problem. I decided after that incident, I wasn’t going to put myself and the kids in that situation again. When I got some more temping work, I never told them about it and for two years I had this £150 bi-weekly income from a temping agency. I was paid by cheque but I never gave my national insurance number.”

# 7 RECOMMENDATIONS

**The following recommendations are drawn from our local experience of delivering services to children, young people and adults and our national research and campaigning work summarised in this booklet.**

Policy and practice changes are needed to eliminate reliance on cash-in-hand work and encourage people to declare their work, gradually making the transition into formal employment and out of poverty. Government policy must harness the skills and experience gained from informal paid work; as well as supporting people who wish to take the self-employment route. Our recommendations include:

## **Joined-up Government**

- A clear and holistic strategy is needed across government to address the UK's informal economy. This should be supported by a set of outcome targets included annually in the Budget
- One government department should be given lead responsibility for addressing the UK's informal economy
- We must harness the informal economy by embedding it in local and regional development strategies (that's to say, explicitly support it in strategic plans and adopt a cross-agency approach to formalising informal trading).

***“Government policy must harness the skills and experience gained from informal paid work”***

## **Removing the Need: Reform the benefit system**

Government, particularly the Department for Work and Pensions, should:

- Modernise the benefit system to reflect and respond to the way people are living and working now
- Ease the move off benefits into formal paid work by smoothing the transition period; for example, by introducing a tapered withdrawal of benefits.

- ‘Work incentives’ need to change. A formal review should be undertaken by DWP including wide consultation, and financial and behavioural modelling. We recommend that reforms to ‘work incentives’ should not be assessed in isolation, but incorporated into the wider context of reforming the benefits system, including benefit simplification

*“Modernise the benefit system to reflect and respond to the way people are living and working now”*

- Statutory employment agencies and their sub-contractors must provide support for people once they have found work for at least 6-12 months
- Benefit ‘leavers’ and ‘returnees’ should be tracked indefinitely, possibly using National Insurance numbers, to identify behavioural and employment trends, ensuring Jobcentre Plus understand their ‘customers’ and offer a better service.

### **Establish Informal Economy Support Teams**

- We recommend that local authorities and national statutory agencies establish local Informal Economy Transitional Support Teams, which offer practical support and guidance to move more people and businesses into formal paid work and out of poverty.

### **Tackle informal employers**

- Government should significantly increase its investment and resources into compliance agencies such as the Advisory, Conciliation and Arbitration Service (ACAS), Gangmasters Licensing Authority and the Health and Safety Executive
- An increased emphasis is needed to tackle informal and exploitative employers, whilst supporting their informal, and often vulnerable, workers into formal paid work.

### **Support the self-employed**

- DWP, BERR and HMRC should recognise and fund business support and advice, delivered by local organisations, which explicitly

centres on formalising informal businesses

- A focus on emphasising the positive and beneficial aspects of business formalisation in marketing and advertising at a local, regional and national level should be undertaken by relevant government departments
- All Flexible New Deal providers should include specialist Self-Employment provision
- Until Flexible New Deal starts, DWP and Jobcentre Plus should significantly raise awareness of the current 'New Deal for Self-Employment' option to all staff and its customers, particularly in the present harsh economic times
- Jobcentre Plus should have a dedicated Self-Employment personal adviser in each district and/or Jobcentre.

## **Remove the barriers to formal paid work**

### ***Employment***

- Increase the number of well paid, sustainable jobs whilst supporting the development of local labour markets
- Increase levels of investment in training and skills development which will help more people to find decent jobs, enabling them to stay and progress in-work
- Increase the levels of flexible, part time and sessional jobs.

### ***Housing***

- Increase the stock of affordable housing
- Reduce time spent on the housing waiting list
- Prioritise the reduction of time spent in temporary housing.

### ***Education and early years/childcare***

- Invest in education and early years/childcare to break the cycle of poverty for future generations
- Provide good quality, affordable and 'open at all times' childcare.

## Ensuring evidence-based policy making

Our informal economy consultancy service builds on Community Links' 30 years first hand experience of working with people in the informal economy. Partners can draw on our specialist research, policy and campaigning work to understand the dynamics of informal paid work, and support more people into the formal economy and out of poverty.

This unique service provides robust research, coupled with a strategy and planning service which enables Local Authorities and Regional Development Agencies to understand their local economy, the hidden as well as the recorded; to identify and address the issues; and in doing so harness the skills of the local workforce enabling them to build their own ladders out of poverty.

The harsh economic climate is leading to job losses across the country. Unemployment is expected to rise during this period Local Authorities and Regional Development Agencies have an opportunity to recognise, understand then formalise cash-in-hand work, and turn job losses into job creation, strengthening the economy locally.

**Download our brochure** [www.community-links.org/our-national-work/informaleconomy-consultancy-service](http://www.community-links.org/our-national-work/informaleconomy-consultancy-service)

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## What you can do

Get in touch if you'd like to:

- work with us
- support our work
- share your stories or reflections on poverty
- be kept updated
- access our informal economy consultancy service.

**E-mail [maeve.mcgoldrick@community-links.org](mailto:maeve.mcgoldrick@community-links.org)**

**Join our 'Need NOT Greed' Campaign.**

**Sign up at [www.neednotgreed.org.uk](http://www.neednotgreed.org.uk)**

**Comment on our blog: [www.community-links.org/linksUK](http://www.community-links.org/linksUK)**

## Thank you

This booklet summarises the work of many individuals who have researched and analysed the issues facing the communities of Newham. Originators of the research material are all credited in the original documents.

The social change series connects collaborators from across Community Links as well as many friends, partners, funders and supporters from other organisations. We are grateful to them all for their continued commitment.

*Visit the linksUK blog: [www.community-links.org/linksUK](http://www.community-links.org/linksUK)*

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## Social Change Series

The Community Links Social Change Series draws together information from our existing research reports detailing our position and track record on significant, complex issues which we, as a multi-purpose organisation, are engaged with on several levels.

**Regeneration** The first in the Social Change series focuses on Physical Regeneration. Community Links has worked for over thirty years in Newham, east London. Our area is currently undergoing unprecedented regeneration as work gets underway to prepare the site for the London Olympics 2012. However, we are concerned that the focus on buildings and infrastructure misses real opportunities for community regeneration.

**Child Poverty** Our second booklet reports on the devastating impact that child poverty has on many of the young people we work with. We set out our practical work with families and young people and summarise several recent research reports including policy recommendations. Case studies illustrate the difficulties faced by many who are struggling to bring up children in difficult circumstances.

Copies of the Social Change Series can be downloaded at [www.community-links.org/our-national-work/publications/social-change-series](http://www.community-links.org/our-national-work/publications/social-change-series)

Request a printed copy at [uk@community-links.org](mailto:uk@community-links.org)





community **links**

**“The modernisation of welfare has to take account of the fact that thousands of people find themselves working ‘off the books’ without ever having meant to defraud the system. Community Links has thought carefully about how to help them to declare their work and continue moving from benefits to employment. Undeclared work is wide open to exploitation and abuse, so I hope policy makers will read this report carefully: this is an opportunity for sensible far-reaching reform.”**

*Brendan Barber, General Secretary, Trade Union Congress*

**Community Links** is an innovative charity running community-based projects in east London. We help thousands of children, young people, adults and older people in deprived neighbourhoods to reach their own potential and build their own ladders out of poverty.

Many have faced difficult challenges. They may be struggling to make ends meet or to establish a home in a new country. Some suffer from the consequences of being born into poverty – children excluded from school, poor health, inadequate housing, loneliness and isolation. Others may just need some support to make life a little easier.

Our programme of national work shares the lessons generated by our local work with others across the country to widen the impact of our projects and generate lasting social change. The Community Links Social Change series draws together information from existing reports detailing our position and track record on significant, complex issues with which we, as a multi-purpose organisation, are engaged.

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