

## **REVIEW OF MODERN WORKING PRACTICES**

### **Background**

This submission is from the National Hairdressers Federation, the UK trade association which represents over 5000 owners of hair salons, beauty salons and barbershops. 93% of all hairdressing, barbering and beauty businesses employ less than 10 people and two thirds of those businesses have an annual turnover of less than £99k. Around 270,000 work in the hair and beauty industries.

While employers make up the majority of our membership, we also represent those who are self-employed.

### **Working practices within hair and beauty**

There are four models of working practices within the hair and beauty sector:

- Model 1** Employee
- Model 2** Self-employed, typically working in just one salon or barbershop (known as chair renting or beauty room renting)
- Model 3** Self-employed, working outside a salon, typically as a freelance (mobile) hairdresser or beauty therapist moving from client to client
- Model 4** Self-employed, working via an App where a client requests a service from a company which despatches a self-employed stylist or therapist to the client's location eg their home or workplace. Examples include BLOW, Urban Massage, Get Smooth although it is an emerging model within the hair and beauty sector i.

Self-employment is very common, with 48% of people working in hairdressing and barbering being self-employed and 57% in beauty.

Part-time working is also very common, with around half of the entire workforce working flexible hours.

The industry is heavily dominated by females who account for 87% of the workforce, with females in the age group 25-34 the most common. Flexibility to fit around childcare and other family commitments is likely to be a major factor in the high levels of part-time working.

### **Survey**

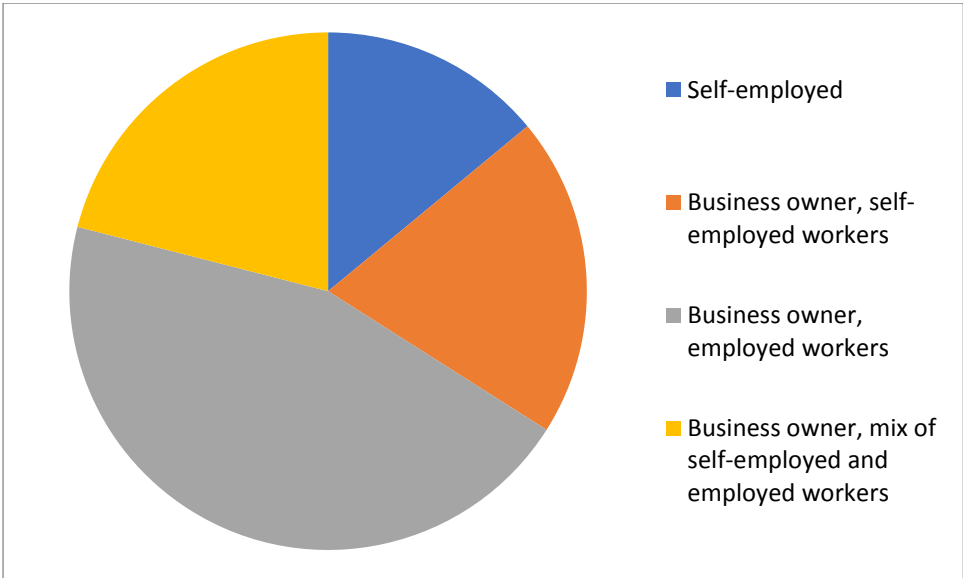
To inform our response to the review, we carried out a survey of NHF members and non-members during April/May 2017. The survey was open to salon owners/managers and to the self-employed, including members of the Freelance Hairdressers Association. There were 530 responses.

65% worked in hairdressing, 25% in hairdressing and beauty, 9% working in barbering and a few in beauty/male grooming.



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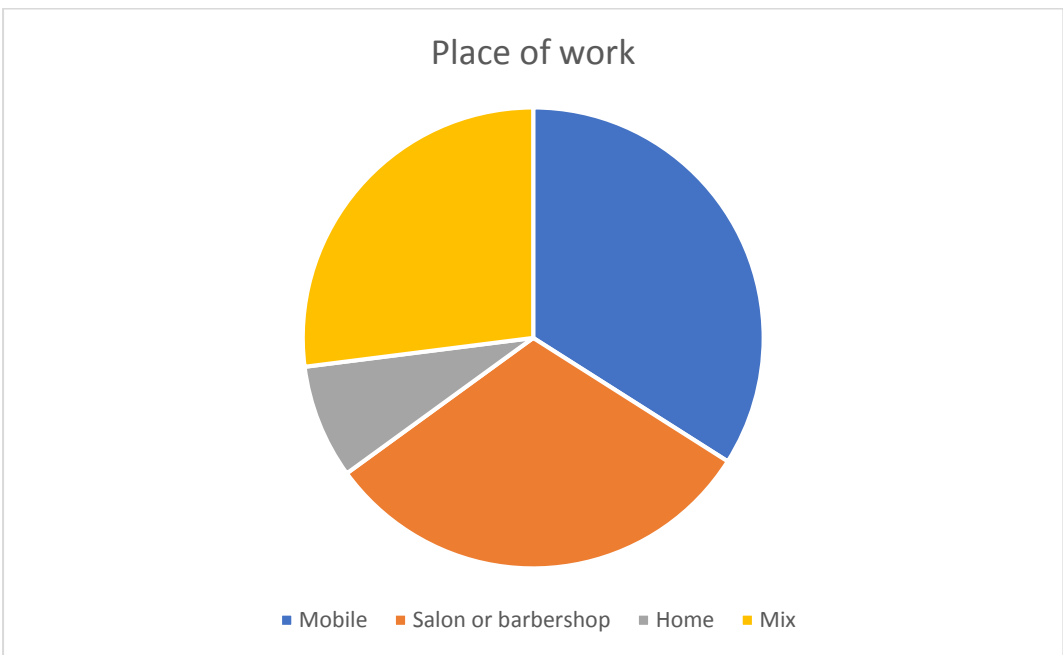
**Business models**



Almost half of respondents were business owners/managers who do not have any self-employed people working in their salons. Roughly 20% had self-employed people working in their salons, while a further 20% had a mix of employees and self-employed people working alongside each other in the salon.

**Self-employed**

74 (14%) of the respondents to our survey were self-employed. Of those, 91% had been an employee at some point. Well over half (57%) had been self-employed for 10 years or more, suggesting that they are satisfied with being self-employed.



Over a third were mobile workers, visiting clients in their home, a third worked in a salon/barbershop while another third worked a combination as a mobile worker as well as being self-employed in a salon or barbershop. None of the respondents worked via an app, similar to Uber in the 'gig economy' model.

### **Motivation for being self-employed**

Overall, the main reason for the respondents going self-employed was:

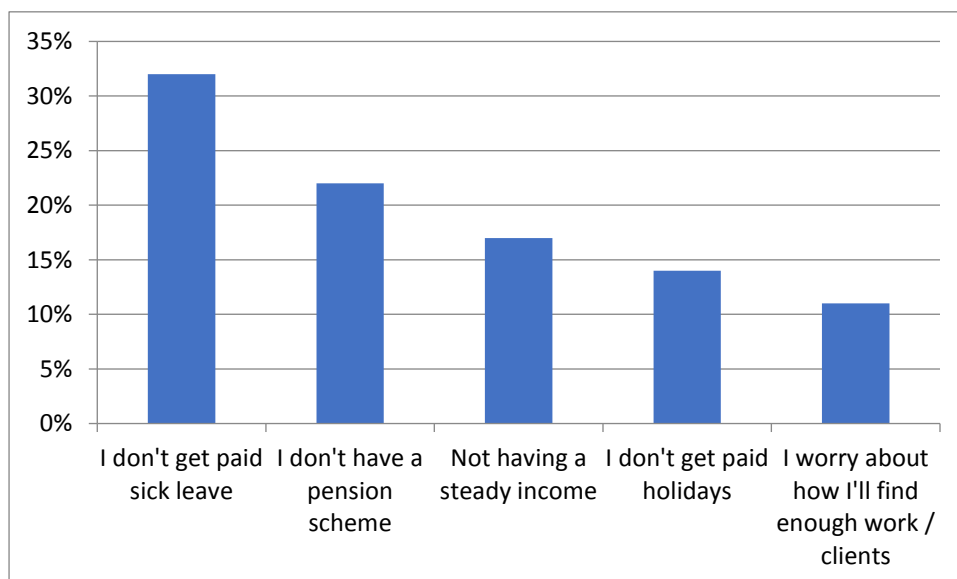
- 35% To be independent
- 34% To be flexible to fit round other commitments
- 20% Could earn more than if they were an employee
- 6% Couldn't find employment in a salon/barbershop
- 5% As a step towards running their own salon/barbershop in the future

However, mobile workers were motivated primarily by the flexibility to fit work round other commitments (50%) or to be independent (41%). Those who mixed mobile working with self-employment in a salon/barbershop were motivated by independence and flexibility (30%).

By contrast, the primary motivation for the self-employed working in a salon was to earn more than they could as an employee (40%), with a further 30% valuing their independence.

### **Concerns about being self-employed**

When asked which ONE thing concerned them most about being self-employed, the biggest concerns were sick leave and pensions:



Less than 2% were concerned about paid maternity/paternity leave or felt they earned less than they had expected when they first went self-employed.

Nevertheless, the vast majority (69%) said they were 'absolutely fine with being self-employed, it works well for me', although a significant minority (14%) felt they were 'treated like an employee but with none of the benefits'.

### **Business owners with self-employed people working in the salon / barbershop**

Those who have self-employed people working in their salon (177) said their primary reasons were:

- 32% It's cheaper, with savings on holiday pay, maternity/paternity leave, pensions etc
- 32% There's too much red tape for small businesses taking on employees
- 31% I couldn't find enough suitable employees
- 12% It's cheaper for customers as they don't have to charge VAT on their prices

However, as this question allowed respondents to rank their responses, the cost savings also came out as the strongest secondary reason.

- *To be honest the minimum wage and cost of overheads is the only reason we chair rent*

Most (68%) felt that chair renting worked well for them as business owners:

- *I am a new business and income from my chair renter covers my rent, instead of having the risk of paying someone and not getting that money back.*
- *The 'rent a chairs' want to be self-employed for the freedom it offers. They would not be employed by me, they would leave if I started to control them.*
- *If I did not allow ... the option of self-employment I would lose them. Once there is a precedent, then they all start to leave.*
- *I only have one room rent and it works really well – as long as I get my rent the room is hers to work the hours she chooses*
- *Much less red tape and admin hours with chair renters*

### **Employers**

The majority of business owners (45%) who only had employees working for them said that 'having full control over their business' was the most important reason for rejecting self-employed people working within their business. The salon being able to work as a team, controlling the client experience, and controlling the hours employees work were also important reasons for choosing employment, with many feeling that it was a good choice for their business:

- *It gives them security of employment, it's the right way to do business and it works for us as a company to invest in our people*
- *Stability. In my experience a lot of chair renters flit about*
- *We are bigger than the sum of our parts. The new generation of Hairdressers having just graduated and with no clientele and limited experience find career development and progression almost impossible on a rent a chair model.*
- *I believe employed workers enjoy more benefits and entitlements and get greater value working within a strong, well-directed team*



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## **Resentment at perceived unfair competition**

There was a very strong sense that employers were at a real disadvantage compared to business owners who had self-employed people working in their salons. There were 4 main reasons for this:

### **1 Training**

Salons with employees invest in staff training, but don't necessarily get to see the return on their investment either themselves or for the future of the industry:

- *I'm proud of the number of young people I have put through Modern Apprenticeships. They are the future of our industry. The chair renting salons generally don't train anyone as they are only concerned about themselves*
- *We resent the fact that we spend years training apprentices and then they leave to work self-employed. They then don't put in any effort to train the next generation of hairdressers.*
- *I lose staff time and time again because younger employees come through me for training, experience and to gain clients, then leave to go 'rent a chair'*

### **2 Tax disadvantages**

VAT is the main differential in that a self-employed person working in a salon is a single entity, and therefore unlikely to exceed the VAT threshold:

- *We feel very aggrieved that we have to add 20% VAT to the price of our hairdressing services, whereas self-employed do not.*
- *The takings for self-employed salons could be over the VAT threshold for the whole team, yet their prices are 20% less.*
- *I believe that rent a chair undermines the industry and is often a VAT dodge*
- *As a business which pays a huge amount in VAT and taxes, I struggle to compete with the rent a chair salons in the same town. I feel everyone should pay VAT to make it fair.*
- *Because turnover is higher as a whole, prices have to be at least 20% more than a chair renter. This makes it much harder for a salon with employees to compete with self-employed chair renters – totally unfair.*

### **3 Cost of employment**

There is a clear sense that employers feel resentful that by 'doing the right thing' and providing employment for their staff, they are at a major competitive disadvantage compared to those salons using self-employed workers. The word 'penalised' was used over and over again:

- *We are penalised with PAYE, NI, rates, tax and pensions*
- *We are penalised with costs and expenses for PAYE, NI and now pensions. If I didn't employ people I would not have to pay all these overheads as well as rent, rates and taxes*
- *We are taxed and penalised to within an inch of our lives for actually employing people*

- *Employing staff makes it harder for us to operate and offer competitive pricing as wages, taxes, pensions and holidays have to be taken into account.*
- *Our business is put at a competitive disadvantage by 'doing the right thing'*
- *There are 13 salons in our town. 10 are rent a chair but none of my clients realised this, they just thought I was more expensive.*

#### **4 Cash in hand economy**

It is important to note that the following comments are unsubstantiated and there is no actual evidence of 'cash in hand payments', it is another indicator that employers consider themselves disadvantaged:

- *I pay my staff well but I have lost so many stylists - that I've trained - to chair renting because it's so lucrative for them, with a high percentage of what they do never being declared I suspect, as most don't take card payments, it's cash only.*
- *They believe that they can earn more money, though they don't declare full earnings due to cash.*
- *I know salons that have all self-employed but restrict their hours and holidays, but nobody says anything because the staff member thinks they are earning more money being self-employed.*
- *Lack of regulation can promote an uneasy and fraudulent conspiracy between salon owner and self-employed person to not fully declare earnings.*

#### **The NHF's position**

Our survey has shown that model 3 (mobile working) is most likely to be a genuine choice made by a worker to become self-employed. As noted above, the 'gig worker' (model 4) is not a well-established business model within the hair and beauty sector as yet, but it is growing. The two models are quite similar, although the mobile worker (model 3) is more likely to work purely as an individual with a regular clientele, while the 'gig worker' (model 4) works for a company or brand name on an ad hoc basis.

We believe that there is a place for self-employment, which is a business model which can work extremely well for the worker, particularly those who are mobile workers who have made a conscious choice which gives them flexible employment which can fit round other commitments (including part-time employment) and independence.

When it comes to self-employed people working within another person's business, it works when it is a genuine and positive choice on the part of the worker who fully understands their rights and exactly what self-employment means in terms of what they gain and what they lose.

#### **Cost savings can lead to 'bogus' self-employment**

There are clear financial advantages to business owners in having self-employed people working in their salon, for example savings on National Insurance Contributions, holiday pay, sick pay, maternity or paternity pay and pension contributions.

Chair renters are unlikely to be above the VAT threshold so they can charge clients 20% less for services than salons who take on employees, which are much more likely to be

above the VAT threshold because of the relative size and turnover of their business. This gives an unfair advantage to salons working with chair renters compared to those with employees.

The NHF encourages salon owners to look more widely at the pros and cons of chair renting, beyond the financial savings. We have published a guide (Annex A) which sets out what salon owners can and can't do with regards to chair renters, and clarifies the differences between employees and self-employed chair renters and the impact this will have on their business.

We also provide legal agreements to ensure that business owners operate a chair renting model which complies with the current HMRC criteria and employment law. As the agreements are signed by both parties, both should clear on their obligations and exactly how the chair renting arrangements will work.

Nevertheless, there are many salons who have chair renters, but who do not have such agreements in place. This makes it much easier for those business owners to treat self-employed workers as employees, but without any of the associated benefits and protections, a view supported by some 14% of the self-employed respondents to our survey.

### **Red tape is also a disincentive**

As well as the cost savings, for a small business owner there is a lot of red tape involved in taking on employees:

- *There are far too many rules for employers, it's a minefield.*

Few hair and beauty businesses are large enough to have an HR team, so complying with employment law is a constant worry, especially in a climate where there is a strong focus on non-compliance and enforcement, for example around the National Living Wage and National Minimum Wage. Some employers therefore see a 'hassle-free' option in giving up taking on employees and switching to chair renting.

### **What we want**

#### **a) Reduce incentives which encourage bogus self-employment**

The financial incentives which encourage business owners down the bogus self-employment route need to be reduced, to make it a less attractive option. This avoids the temptation for unscrupulous employers to effectively impose self-employment on their workers purely as a means of reducing cost or administrative hassle.

#### **b) Requirement for legal contract and Code of Practice**

On the other hand, we believe there is a place for self-employment where it is a genuine and positive choice. We want to see a requirement for there to be a legal contract between business owner and the self-employed worker which clearly sets out rights and expectations on both parties, ideally supported by a government-backed Code of Practice.



### **c) VAT reduced for all**

We believe it is no longer appropriate to have a uniform rate of VAT and a single threshold. Unlike capital-intensive businesses which can claim VAT back on the purchases they make, for businesses which are labour-intensive (such as hairdressing, barbering and beauty) by far the biggest cost is wages.

A significant reduction in the VAT threshold to a level which could be a reasonable salary (eg £40,000) would discourage the 'cash in hand economy' and go some way to level the playing field between those businesses who have self-employed workers within them compared to those with employees.

We would also want to see the VAT rate reduced from its current level of 20% to 10%, with similar reductions to the flat rate VAT scheme, at least for labour-intensive industries. The NHF has previously carried out research which shows that if this policy was adopted, the impact would be fiscally neutral.

### **Security, pay and rights**

In the hair and beauty sector, mobile workers and those who combine mobile working with other forms of self-employment or part-time working are motivated by the independence they gain to fit work around other commitments.

For those who are self-employed, working in a salon or barbershop, they are motivated by the belief that they will earn more money than being an employee. However, they do miss out on sick pay in particular, which is a key concern because of the potentially disastrous consequences if they become unable to work.

The benefits of having self-employed workers are much more obvious for business owners, who make substantial savings on employment-related costs, and savings on VAT.

As a measure of protection, self-employed workers could be offered access to a national, affordable, government-backed income protection scheme which could also provide some level of support on other benefits such as pensions.

We would support the introduction of a legal requirement for all self-employed workers to enrol with a pension scheme, such as NEST. The looming crisis of people being able to look after themselves in old age is well-documented. We believe that it is simply a matter of time before the right for employees to opt out of pension schemes will be withdrawn - and when that happens compulsory pensions auto-enrolment should also apply to the self-employed.

### **Progression and training**

Access to training is problematic for self-employed workers. As well as the cost of training, there is also the matter of taking time out of their business which will reduce their earnings.

The rules on what constitutes self-employment prevent a business owner from investing in training for self-employed people working in their business.



Training is often provided by colour manufacturers at a salon level on the basis that education and training on how to use their products to achieve the best results is good for their business and for the salons who have accounts with them. It is much harder for training providers to contact individuals to offer training courses as they are hard to identify or reach. In addition, the returns on training individuals will be smaller than the returns on training a whole salon team.

It could be argued that if the purpose of training is to become more efficient, or attract more clients, or manage finances better, then it's a business decision for the individual whether or not their investment in training will generate returns in terms of improved profits.

The key to this question is who gets the benefit from investment in training and who, therefore, pays for it? Responsibility has to remain with the self-employed individual.

### **The balance of rights and responsibilities**

There does need to be a clear definition of what we mean by 'self-employment', 'worker' and 'employee'. There are variations at present, for example for the purposes of pensions auto-enrolment, tax, benefits and employment law, which are confusing.

We would like to see 'self-employment' defined consistently across all the different contexts the term is used in, and which covers the different models of self-employment (models 2, 3 and 4 set out above) which apply within the hair and beauty sector.

### **Representation**

There has been some discussion about a collective or membership organisation which represents self-employed workers. Many sector-specific membership bodies, such as the NHF, represent the self-employed as well as employers. We would not support any form of compulsory trade union membership.

### **Opportunities for under-represented groups**

Self-employment is already accessible to under-represented groups within the labour market eg the elderly, those with disabilities or care responsibilities. In fact, our survey suggested these may well be reasons why an individual would choose to be self-employed:

- *I am of an age where I don't think anyone would employ me*

The option of working from home as well as working flexible hours could be very attractive to those balancing other responsibilities or who want a model of employment which fits around disability or age.

### **New business models**

The government can support a variety of new business models by ensuring that the systems set up by government eg tax, VAT, pensions do not give an unfair advantage to businesses using self-employed workers compared to those who bear the extra costs of employing people.