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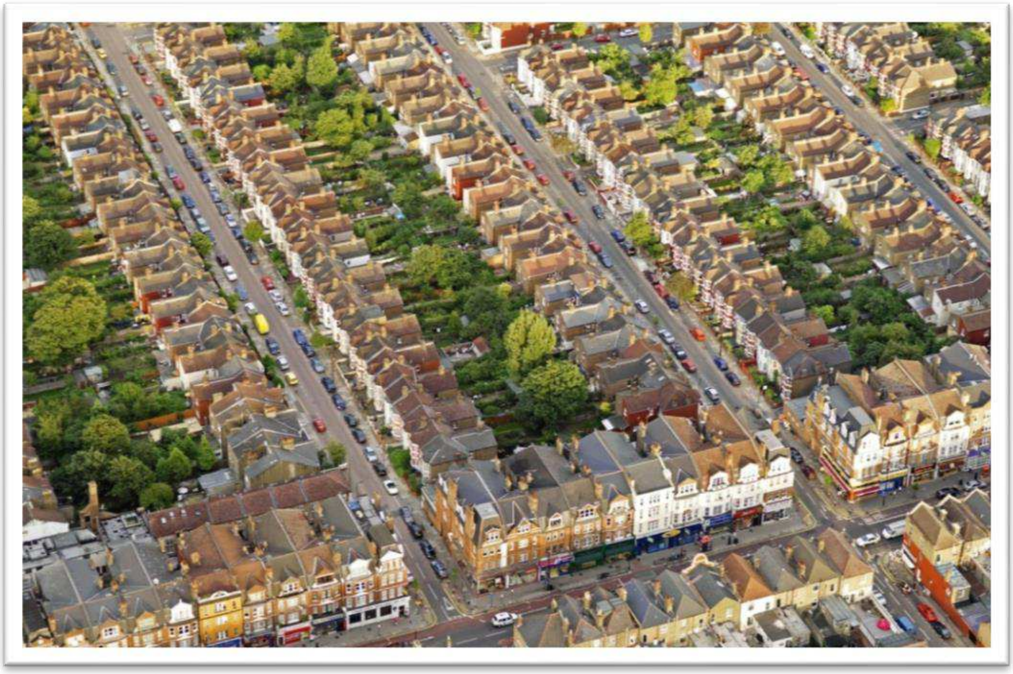
UNLEASHING THE SHARING ECONOMY



- The Government should go further and faster to promote the Sharing Economy.
- Sharing Economy could save hundreds of millions of pounds for the public sector.
- The Government should reduce the complexity and burden of tax on the sector.
- Sharing Cities can help to drive public and private sector productivity growth.

1. INTRODUCTION

The Sharing Economy is one of the UK's fastest growing and most exciting sectors. It entails a host of new companies which are using information technology to allow consumers, other businesses and the public sector to make better use of their existing resources, assets and skills. These assets are as varied as empty driveways and bedrooms, a space at a dinner table or a car available for hire. The revenues generated by these companies such as AirBnb, EatWith and JustPark are rapidly rising and PwC estimates that globally the Sharing Economy will increase in value from £9 billion to £230 billion in the next ten years. Recent research by Benita

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Matofska suggests that globally the Sharing Economy is growing faster than Google, Facebook and Yahoo combined.

In the UK the revenues generated from five key Sharing Economy sectors: peer-to-peer finance, online staffing, peer-to-peer accommodation, car sharing and music/video streaming are expected to rise from £0.5 billion to £9 billion over the next decade. The Sharing Economy is helping to build a nation of capitalised entrepreneurs as well as reducing the waste of resources and helping the public sector to save taxpayers' money. The average car, for example, is parked for 23 hours a day. Making better use of those 23 hours could lead to higher productivity, reduced air pollution and less congestion.

In a previous Economic Bulletin we explained the importance of the Sharing Economy, the broad measures necessary to help the sector grow and some of the threats it faces. Since then the review of the sector carried out by Debbie Wosskow and the Government's response to it have been published. Wosskow's report contains a number of useful recommendations which will help the development of the Sharing Economy, and the Government has taken on a number of these recommendations. More can still be done.

Globally there has been a tendency to view the disruptive progress of Sharing Economy firms with suspicion; this has led to over-regulation, new barriers to entry and sometimes outright bans. Uber, the online taxi-hailing company has been subject to particular vitriol and has seen the brunt of the backlash. In March the French authorities deemed it necessary to raid the company's Paris headquarters with 30 police officers. South Korea, India, Germany and many other countries have imposed further restrictions on the firm.

It is likely that this heavy-handed regulation will inhibit the growth of the Sharing Economy in those countries compared to the UK which remains one of the few countries which has not carried out a regulatory backlash against the sector. However there are still a number of measures that the new Government should implement which could help the Sharing Economy to achieve its full potential, including in delivering savings for the public sector.

2. PUBLIC SECTOR

As highlighted in Wosskow's report, including both central and local government, Britain's public sector property portfolio is worth £370bn but places over £20 billion in running costs on the taxpayer every year. Space for Growth allows start-ups, SMEs, social enterprises and charities to rent vacant government space across the UK virtually for free or at low cost on a short term basis. This reduces the costs of expansion for these businesses and social enterprises by making better use of unused public-owned space. Wosskow's review recommended that local authorities should join in the Space for Growth programme and advertise unused space also.

However, the Government's response to this initiative appears to lack ambition. Where space is owned by local government and is not being used or sold, it should be made available for use by businesses and NGOs. The Government should therefore request that local authorities place such areas on the Space for Growth website to allow a single, clear portal for interested parties. If there is a small cost for local authorities in carrying out inventory checks, then this could perhaps be passed on to the users of the space who will still find it to be much cheaper than renting elsewhere. The Government should also significantly simplify the registration process, especially for buildings for which there is less need for onerous security vetting.

Public sector procurement frameworks are also due to be given extra flexibility by providing options for sharing economy platforms for accommodation and travel. Opening up these contracts to sharing economy alternatives could help to deliver significant savings in the regular operations of the public sector. This is due to come into force in Autumn this year so it is possible that a lack of familiarity with sharing economy options may inhibit their take-up. The Government should therefore be clear within the public sector about the potential savings before the new procurement framework is implemented.

3. PARKING SPACE

Last year the Government clarified that if homeowners want to rent out their driveways, they do not need planning permission. The result has been a more efficient use of driveways, reduced congestion and homeowners gaining the opportunity to supplement their income. Users of JustPark, for example, earn an average of £465 a year. In March the Government committed to extending this guidance to local authorities for non-residential properties "provided there are no substantive planning concerns". Whilst this is certainly a welcome step, the Government should ensure that local authorities do not abuse this final clause by stretching the definition of "substantive".

4. INTERNET ACCESS

Given that firms operating within the Sharing Economy use the internet and apps to operate, those without the internet or smart phones are effectively locked out of the sector. Paradoxically it is the people most likely not to be connected to the internet i.e. older and poorer households who have the most to gain from making more of under-utilised assets and supplementing their incomes. Indeed research undertaken by Fraiberger and Sundararajan (2015) shows that sharing economy platforms disproportionately benefit low income groups.

In 2014, four million households were without internet access and half of those surveyed said that this was due to either a lack of skills or affordability of the necessary equipment. The Sharing Economy has the potential to deliver significant benefits for older and poorer households but only if they have an internet connection. The Government's Digital Inclusion Strategy works with charities to reduce the number of people without an internet connection or who don't have the necessary skills to use the internet; this is aimed at effectively eliminating digital exclusion by 2020. In combination with implementing this strategy, the Government should enact substantial reforms to the Electronic Communications Code to boost mobile coverage as part of its grand bargain on roaming with the industry. This should include, for example, measures to reduce the bureaucratic burdens on repairs and upgrades, allowing sharing and better dispute resolution.

5. TAXATION

The Sharing Economy has in many cases blurred the line between personal and commercial activity. People earning small amounts offering their cooking services or renting out their car are not always clear how much of, or even if, their income is taxable. This problem concerns many participants in the Sharing Economy including freelancers for whom it is the primary source of income as well as others who receive benefits and tax credits and may face extra complexity. People who share their primary home are able to make use of the £4,250 Rent-a-Room Allowance which is the amount they can earn before paying income tax. However this does not help to resolve the issue of employment status for users of the Sharing Economy.

In her report Wosskow recommended that HMRC and the Treasury create a guide to tax in the sector and an online tax calculator. The Government's response accepted that there is some confusion and committed to clarifying the situation in the future. Whilst this is of course understandable, the Government should ensure that it publishes this guidance as soon and as clearly as possible to end the uncertainty. Making it easier to work through the tax system will remove a barrier to entry and expansion in the sector.

The Government should also aim to reduce the burden as well as the complexity of taxation on the Sharing Economy. Expanding the scope of the size of the Rent-a-Room Allowance as suggested by the IoD would act as a powerful tool to encourage the growth of the sector and tax simplicity. For example, by setting it at the same level as the income tax free threshold, the Rent-a-Room Allowance could become a Sharing Economy Personal Allowance.

6. TRUST

Trust is critical to a well-functioning and growing Sharing Economy. Sharing of virtually any kind depends on an exchange based on trust; firms within the Sharing Economy therefore need to establish this trust amongst their customers if they are to have a chance to grow. In particular, identity and background checks are necessary to give confidence to users about who is providing the service and asset.

The Government's commitment that criminal record checks will become digital by default is welcome as it will help to speed up verification times. However the Government should also take further steps to allow Sharing Economy firms to access GOV.UK Verify which is an identity verification tool. This would help to save substantial time and resources for fast-growing firms. If there are compelling security reasons to prevent this, the Government should simply explain this and clarify its current vague stance.

7. SHARING CITIES

At the Budget the Chancellor announced plans to launch two pilots for "Sharing Cities" in Leeds and Manchester. The cities will trial sharing initiatives in areas such as transport, health and social care. There is evidence that this strategy could deliver significant savings. For example, Aylesbury Vale District Council introduced a car sharing and rental scheme to replace the standard reimbursement model for staff travel. Nine vehicles provided by Enterprise Rent-A-Car are now being used by staff travelling on council business and it is estimated that this will save the council £100,000 a year. Car sharing helped Cumbria University to reduce the costs of maintaining its own car fleet by approximately £240,000 a year.

If this was expanded across different cities and across the entire public sector, it is likely that hundreds of millions of pounds could be saved for the taxpayer and private sector productivity would be boosted through a more efficient allocation of resources. Other countries are beginning to view Sharing Economy solutions as the key to resolving many issues and Amsterdam has already been named the first "Sharing City". It is important that the Government swiftly implements the pilots in Leeds and Manchester and looks to extend them to other cities.

The Government has already carried out a number of measures which will help to remove barriers to the growth of the Sharing Economy. It should now build on those measures to deliver better value for money for the taxpayer and to ensure that these disruptive innovators are given the opportunity to thrive.

8. MUST BE READ:

HP Matter: How Government red tape is impeding innovations
PwC: Sharing Economy: Consumer Intelligence Series

9. MUST BE READ ON CAPX:

Alice Truong: The Sharing Economy meets space travel
Helen Goulden: Where will the Sharing Economy take us?

Adam Memon and Tim Knox
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