

**BUSINESS  
DEBTLINE**

**MONEY  
ADVICE TRUST**

**BUSINESS  
DEBTLINE**

**NATIONAL  
DEBTLINE**

**WISER  
ADVISER**

ADVICE YOU CAN TRUST

# The cost of doing business

## Supporting the self-employed and small businesses

A report by the Money Advice Trust



# About the Money Advice Trust

The Money Advice Trust is a national charity helping people across the UK to tackle their debts and manage their money wisely.

The Trust runs National Debtline, offering free, independent and confidential advice on personal debt over the phone and online, and Business Debtline, the UK's only free dedicated debt advice service for the self-employed and small business owners.

Through these practical self-help advice services and our Wiseradviser training programme for debt and money advisers, last year we helped more than 1.2 million people.

Beyond our frontline activity, we work closely with government, creditors and partners to improve the UK's money and debt environment.

## Our Business Debtline service

Business Debtline is the UK's only free debt advice service for the self-employed and small business owners. Last year Business Debtline helped over 40,000 businesses to tackle their debts, by phone and online.

Like its sister service National Debtline, Business Debtline offers practical self-help – empowering businesses to deal with their creditors and put solutions in place to resolve their financial difficulties.

After speaking to our expert advisers:

**54%** of our clients were able to overcome their immediate problems and continue to trade;

**88%** of callers felt more in control and knowledgeable in managing their money following our advice;

**86%** of callers found that seeking advice on their debts improved their health and wellbeing; and

**95%** of those who went on to make agreements with their creditors have maintained them or completed them three years on.

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# Foreword



The UK's small businesses are the heroes of our economy. Whether it's the local plumber on hand to fix a leak or the corner shop we pop into on the way home from work, we all benefit from their success. That success also has a ripple effect across the UK as small businesses help to make other businesses tick by acting as contractors or putting money into the supply chain. They bring choice and opportunity to us all and it is essential that we nurture these businesses to ensure they continue to revive our economy. It is therefore vital that the Government, creditors, regulators and the free advice sector work together to ensure that Britain's growing number of self-employed have the help they need to become a success story and contribute to our growth.

Recent years have been marked by a notable shift in employment dynamics, heralding a new and burgeoning population of the self-employed. These are our tradespeople, our high-street heroes and our entrepreneurs, many of whom are attracted by the flexibility and rewards that can come from 'being your own boss', adding value to the economy in the process. As a result, the UK's self-employed headcount is now approaching five million, and small businesses employ one third of the population.

Despite this encouraging new chapter, not all small businesses are trading successfully, with some burdened by unmanageable debt. When someone ventures out on their own, to pursue their trade or follow their dream, they can't always predict the bumps on the road. These businesses, and their struggles, are often invisible. However, given the right support, many struggling business can go on to thrive. It is important that they have a lifeline to reach out to.

At Business Debtline we see the financial and personal impact that financial difficulties have on people. We know first-hand that it is vital small businesses can access the help and support they need both to develop the necessary skills to keep

operating, and to manage their finances effectively. With our advice and support, more than half of businesses continue trading and get back on a path to prosperity. For these people Business Debtline is a 'light at the end of the tunnel', enabling them to support themselves and their families, and continue to make an invaluable contribution to the UK's economy.

We believe the Government, creditors, regulators and support bodies could do more, working together, to make sure the self-employed and other small-business owners can access the expert support that can often make the difference between triumph and struggle. By collaborating we can use our collective voice to make sure that self-employed people who are struggling to manage their finances know where to go to get help. Small businesses are the backbone of our economy – and we have a duty to give them the support they need.

*Joanna*

**Joanna Elson, OBE, CDir**  
Chief Executive, Money Advice Trust

# Executive summary

The welcome economic recovery will present opportunities for many self-employed individuals and micro-businesses to flourish. However, the situation for some of Britain's smallest businesses, now employing 33%<sup>1</sup> of the population, remains fragile. Our report, based on the experiences of 104 of our Business Debtline clients and our expert advisers, summarises the challenges facing small-business owners who are finding it difficult to make ends meet. As the numbers in self-employment grow, it is vital that we understand their challenges, as well as celebrating their successes.

## 1. Our insights

### Struggling to cope

- More than one in three small business owners interviewed drew less than £100 income from their business each month, leaving them in a constant struggle to stay on top of their personal, as well as business, finances.
- More than three quarters reported cutting down on household spending, with more than a third of these reducing spending on gas/electricity and a worrying 74 reporting they were paring back on food.
- Almost seven in 10 of those who had taken out a personal loan were using it to prop up their business, leading to a blurring of business and personal finances.

### High personal cost

- Business difficulties have had a significant knock-on effect on other areas of small business owners' lives, with more than 80 affected by stress, anxiety or depression.
- Around half of small-business owners interviewed said they were suffering sleep loss as a result of problems with their business finances.
- Almost a quarter reported problems in their relationships as a result of their business debts.

### No safety net to fall back on

- The findings also reveal a worrying lack of financial resilience, with 95 of the Business Debtline clients interviewed having no savings, in contrast to the 67% of the wider UK population who are saving<sup>2</sup>.
- 83 of the small-business owners reported having no pension provision, comparing unfavourably to the 53 per cent of the wider UK population reported to be saving adequately<sup>3</sup>.

## 2. Our recommendations

We have set out a series of recommendations throughout the report (and summarised at the end) for government, regulators, support agencies and the self-employed themselves. We are concerned that a lack of any form of financial safety net is storing up significant personal financial problems in the future. We believe that by working together we can ensure there is better policy, solutions and advice available for those working in a self-employed capacity.

1. BIS – Business population estimates 2014.

2. Scottish Widows, Saving Report 2014.

3. Scottish Widows, Pensions Report 2014.

Real stories:

## Leanne and Martin, the festival caterers

Martin and Leanne are a husband and wife partnership whose business has been providing festival catering supplies since 2005.

Their small business was owed over £40,000 in invoices that had yet to be paid. As a result, they were struggling with business and personal debts. Without enough money coming in they were behind on their domestic gas and electricity bills, their council tax, their self-assessment tax and had a penalty charge notice with bailiffs threatening them. Most worryingly, they had mortgage arrears and faced a possession order.

When Leanne first called Business Debtline she said she felt totally overwhelmed by their situation. With the home at risk and bailiffs threatening to seize their delivery van, she was struggling to know what to do next. They had been hoping that the monies owed to the business would be paid, and that they could clear their priority debts in full. Unfortunately, this didn't happen.

As it came into winter, the seasonal nature of festivals made life even more difficult. Leanne needed further emergency advice on getting the house repossession order suspended and was questioning whether they could afford to keep trading.

Business Debtline took time to talk through her situation and set out a realistic budget, focusing on how the business was actually performing rather than how Martin and Leanne hoped it would. They also discussed a longer-term analysis of the business to take into account low season figures and suggested that Leanne put money to one side in good periods to offset the low season. They also gave advice on recovering the funds owed.

It took over two years to get the business back on its feet, but Business Debtline worked with Leanne and Martin over that period to help them get a reduced and affordable suspended possession order on their home. They also helped them to make affordable payments to keep the van and clear the other debts.

Martin and Leanne are now budgeting for the low season months and the business provides the family with an income for them to live on.



Business Debtline took time to talk through their situation and **set out a realistic budget**, focusing on how the business was actually performing.

# 1. The economic environment

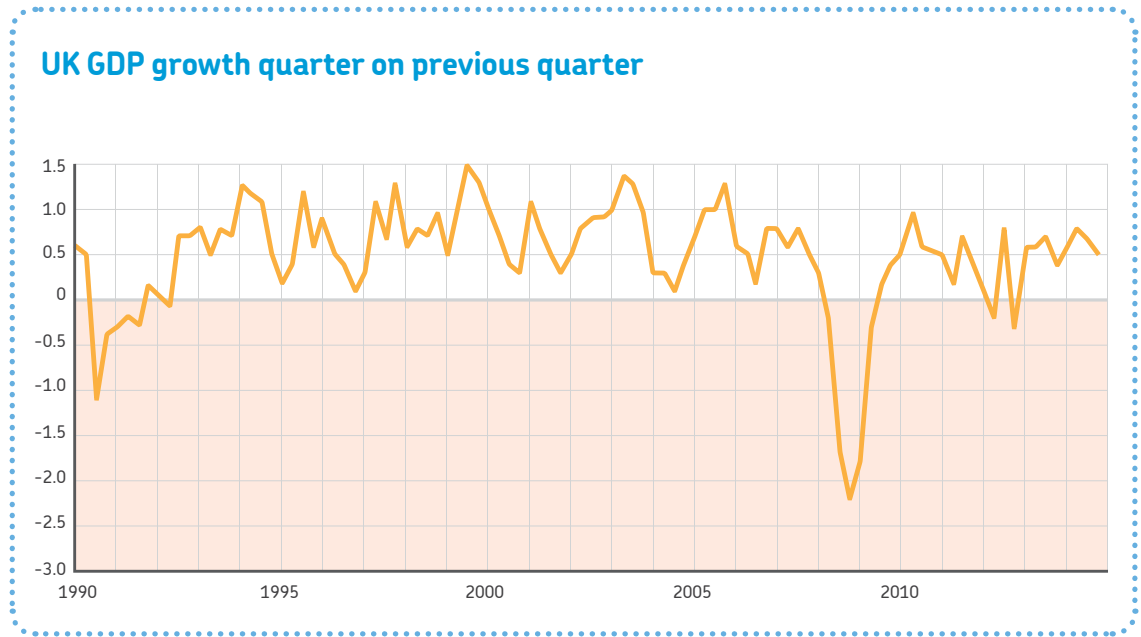
The UK economy has been in a sustained period of recovery over the past few years, to the point where it is now one of the best performing of the major global economies. Last year saw growth of 2.7%, the fastest pace since 2007, representing a rise from 1.7% in 2013<sup>4</sup>. Forecasts for growth in 2015 are at or above 2.5%<sup>5</sup>.

This return to growth is also reflected in more favourable employment figures. For the three months ending March 2015, there were more than 31.1 million people in work, 202,000 more than for October 2014 to December 2014, and 564,000 more than a year earlier. The number of people aged 16-64 and in work also increased from 73.4% to 73.5%, the highest since records began in 1971. The unemployment rate for the three months ending in March 2015 was 5.5%, down from 6.8% for a year earlier<sup>6</sup>.

UK interest rates have remained at 0.5% for six years now, despite growth in the economy causing speculation about the prospect of rate rises. The UK's inflation rate turned negative for the first time on record in May as clothing and footwear prices fell. This is the lowest rate of Consumer Prices Index (CPI) inflation since estimates of the measure began in the late 1980s and means that the cost of living is at a similar level to last year<sup>7</sup>. Such low levels of inflation mean that interest rates are likely to continue to be held at the record-low levels we are currently seeing for a while longer.

**Figure 1**

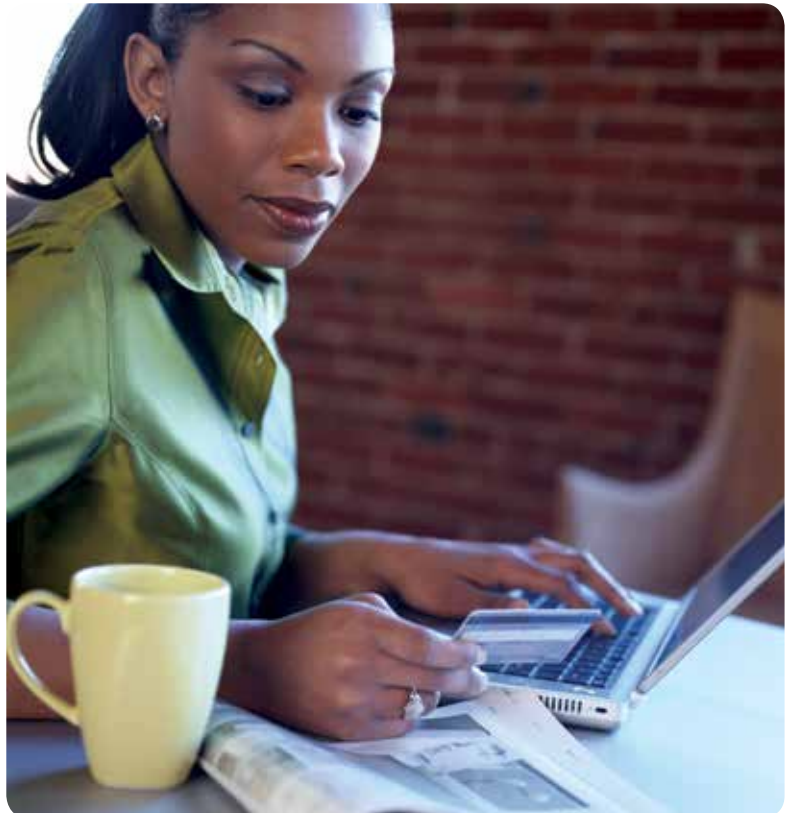
Source: ONS, GDP growth



While the figures above paint a rosy scene, the full picture is more inconsistent. The UK economy grew by 0.3% in the quarter compared to 0.6% in the last three months of 2014. Whilst the economy was 2.4% larger than the same period a year earlier, some analysts are suggesting we may be entering a temporary slowing of the economy. The chief economist for the Office for National Statistics (ONS), Joe Grice, said it was *“too early to say” if this slowdown would persist. “The dominant services sector remains buoyant while the contraction has taken place in industries like construction, mining and energy supply, which can be erratic.”*

Average household incomes returned to pre-recession levels for the first time in 2014-15, but not everyone is seeing the benefit. For people of working age, low growth in earnings along with the impact of inflation, higher taxation and benefit cuts mean that, for many, their incomes remain stubbornly below 2007-08 levels. Household consumption also remains lower than pre-recession levels. As a result, improvements in living standards have been much slower to materialise than in previous recessions<sup>8</sup>.

There are also some concerns that as prices start to fall, consumers may keep hold of their money in the hope they will fall further. In an economy so heavily dependent on consumer spending this could have an impact on growth, and on small businesses reliant on strong supply chains and people feeling confident enough to buy.



4. ONS, GDP data.  
 5. Office of Budget Responsibility, Economic and fiscal outlook. March 2015.  
 6. ONS, UK labour market statistics. April 2015.  
 7. ONS, Consumer Price Inflation. March 2015.  
 8. Institute for Fiscal Studies (IFS), Living standards: recent and future challenges. March 2015.

# 2. The growth in self-employment and small businesses

As the economy has gone through a period of transition in recent years, the self-employed and small business sectors have undergone their own changes.

## 2.1 The growth in numbers

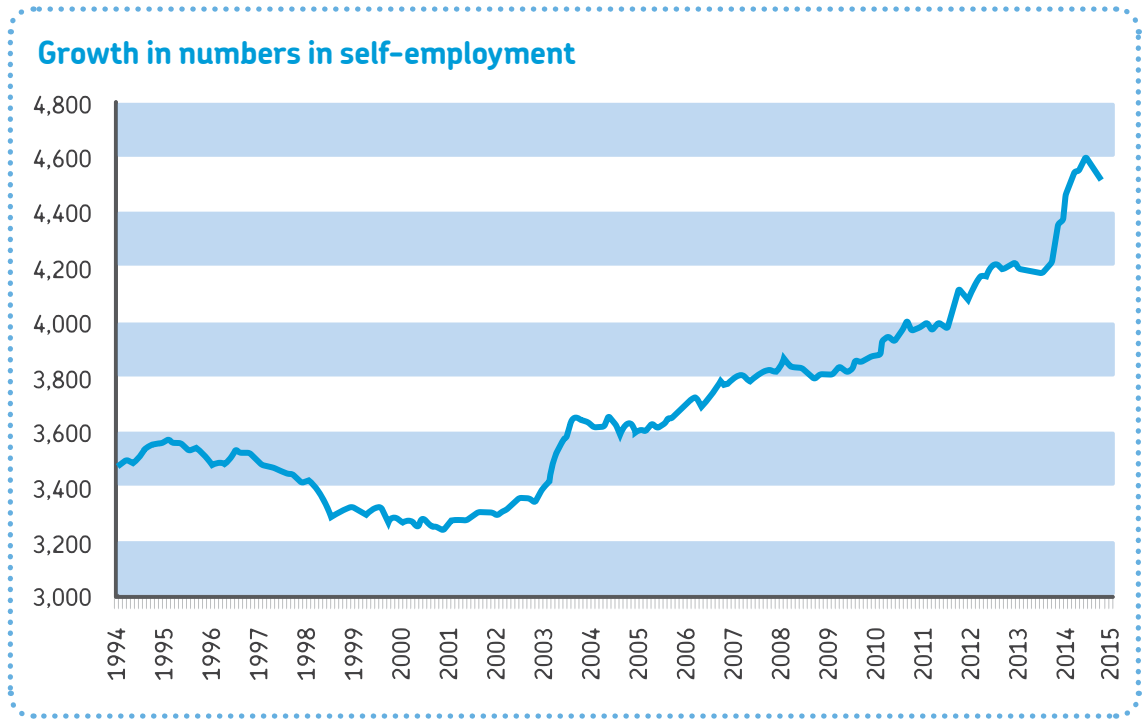
In 2014, the number of self-employed people in the UK rose to 4.6 million, its highest level since records began with 15% of the UK population now self-employed<sup>9</sup>. Across the European Union, the UK has experienced the third largest percentage rise in self-employment since 2009. Whilst these figures peaked in June 2014, they have fallen off slightly as the economy has bounced back.

The rise in the UK self-employed population mirrors a steady growth in small businesses, in particular non-employing businesses<sup>10</sup>. Since 2000, the number of businesses in the UK has increased each year, by around 3% on average. In 2014, there were 1.8 million more registered businesses than in 2000, an increase of around 51% over this period. However, the number of non-employing businesses grew at a much faster rate, at 68%<sup>11</sup>.

Many of the self-employed also set up as sole traders, where there is no legal distinction between them as an individual and the business. It is sole traders who have been at the forefront of UK business growth, with almost 200,000 starting up last year<sup>12</sup>. Of the 330,000 new businesses in 2014, 197,000 are thought to be sole traders.

**Figure 2**

Source: ONS



9. Resolution Foundation, Just the Job – or Working a Compromise. May 2014.  
10. Note that while some of the self-employed will employ staff, many will work alone.  
11. Resolution Foundation, Just the Job – or Working a Compromise, May 2014.  
12. ONS, Self-employed workers in the UK. August 2014.  
13. ONS, Self-employed workers in the UK. August 2014.



## 2.2 Reasons for this growth

Whilst there is much speculation about the cause of increasing levels of self-employment, key contributing factors are changing lifestyle choices and an ageing population. Increasingly, people are attracted to the rewards that 'being your own boss' can bring. The number of over 65s who are self-employed has more than doubled in the past 5 years to nearly half a million. The number of women in self-employment is increasing too at a faster rate than the number of men (although self-employment remains largely male-dominated)<sup>13</sup>.

However, some are driven by less desirable influences resulting from the long-term impact of the recession. Redundancies and a lack of suitable employment opportunities coupled with welfare reforms have been cited as possible causes. Some reports suggest that the drop in unemployment figures can partly be attributed to the increase in self-employment as people who are struggling to find work decide to set up on their own. The recent recovery may reverse this trend. However, at present, there are only limited signs this is happening and indications are that permanent structural changes in the nature of the labour force are here to stay.

Positively, the majority of Business Debtline clients taking part in our research became self-employed from personal choice. However, for a minority, redundancy and little prospect of work on the horizon had forced them down the route of setting up their own business. Many of these people said they felt trapped in this position, finding it hard to make ends meet.



## 2.3 Self-employment around the UK

Unsurprisingly, the picture varies across the country, with the South East, North West and West Midlands experiencing the highest growth in self-employed workers.

Calls to Business Debtline reflect the numbers of self-employed in these areas, with one in five callers based in the South East and one in ten from each of the other regions with high concentrations of self-employed people.

### Proportion of callers to Business Debtline by region 2014

Region	% of Business Debtline callers by region	% of all workers who are self-employed	Growth in % of self-employed since 2008
South East	20	15.8	2.0
London	11	17.3	2.0
North West	11	13.5	1.9
West Midlands	11	13.7	1.9
South West	10	16.6	1
Yorkshire and Humberside	8	12.5	0.7
East Anglia/ East England	6	15.0	0.9
East Midlands	6	12.1	1.0
North East	5	12.1	1.0
Wales	5	14.1	1.1
Scotland	4	11.5	0.9

**Figure 3**

Source:  
ONS and Business Debtline,  
all callers, 2014

Real stories:

## Jessica, the clothes seller

Jessica contacted Business Debtline on behalf of her husband, a sole trader who had been selling sports clothing and equipment from home for 18 months.

They had been married for 5 years, with two children. Her husband lost his job at the height of the recession and found it difficult to get another job. He also began to struggle with his mental health making it difficult for him to continue working as a delivery man. In Jessica's words her husband became 'unemployable' and he felt his only option was to set up a business from home.



His income now was extremely low. They had never experienced debt problems before and Jessica explained she was finding their situation very stressful. She worked full-time and her income had been covering most of the family's costs. When her husband became unwell she had to reduce her hours and benefits didn't stretch far enough to cover the remainder of the household bills.

She and her husband had mortgage arrears of £2,800 and secured loan arrears of £1,600, as well as £17,000 of credit debts. She had a debt management plan for the credit debts and had been able to get arrangements in place to repay the mortgage but not the secured loan.

At first Jessica didn't see the benefit of doing a business budget as the income coming from her husband's self-employment was so low. Jessica explained that she felt self-employment had been forced on her family and she couldn't see any future for the business.

Business Debtline helped her to see why it was important to assess whether the business was viable, and that doing a business budget would help with this. She could also then use the budget when making offers on her secured loan.

Jessica still feels concerned about the business but she feels that she has a better understanding of the finances. They have decided that the business is viable enough to continue to trading for the time being and will review the budget regularly to make sure this is still the case.

Business Debtline took time to talk through their situation and **set out a realistic budget**, focusing on how the business was actually performing.

# 3. Earning a living

## 3.1 Turnover

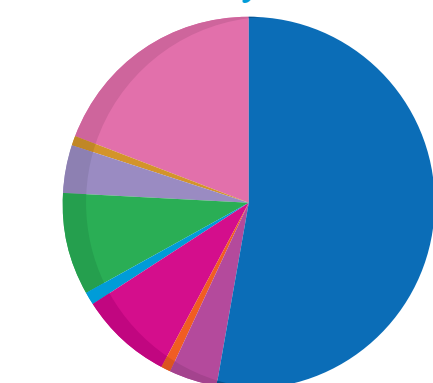
Many of the UK's self-employed and micro-businesses are thriving as the recovery continues to gather pace. For the 'success stories' this translates to a year of growth in 2014 and an expectation of improved business performance in the first quarter of 2015<sup>16</sup>. More small to medium-sized businesses with at least one employee increased their turnover in the last 12 months compared to the preceding year with 78% reporting they made a profit or surplus, back to 2007 and 2008 levels and up 6% on 2012<sup>17</sup>.

However, for some the picture is less optimistic. At the end of 2014, 7.9% of surveyed business owners expected to downsize, close or hand their business over in the next 12 months, slightly up from 7.6% at the end of 2013<sup>18</sup>. At Business Debtline, we witness first-hand the specific challenges those who struggle to make a living from self-employment face.



More than **1 in 10** Business Debtline callers who took part in the survey have a business that is **trading at a loss**

Percentage of callers to Business Debtline in 2014 by trade



## 3.2 Variations between sectors

With confidence levels amongst small businesses generally up on last year, there is encouraging growth in a number of sectors. The UK services industry has entered a period of growth with activity and new business accelerating by 0.5% in the first quarter of this year. However, this growth was offset by a 1.6% fall in the pace of economic output in construction. The UK services sector now accounts for around three quarters of economic growth, with construction, manufacturing and production accounting for the remaining quarter<sup>19</sup>.

Despite this growth, half of the people Business Debtline helped in 2014 were in service-based industries, suggesting not all businesses in this sector are thriving.

Figure 4

Source: Business Debtline, all callers 2014

16. Federation of Small Businesses, Small Business Index, Quarter 4, 2014.

17. Business Innovation and Skills, Small business survey, March 2015.

18. Federation of Small Businesses, Small Business Index, Quarter 4, 2014.

19. ONS: Gross Domestic Product preliminary estimate, Q1 (Jan to Mar) 2015.

### 3.3 Earnings

Despite the welcome upturn in the climate for many of the UK’s successful businesses, the divide between the incomes of those who are self-employed compared to employed people in the UK is widening. On average, self-employed people earn 40% less than a typical employed person and their incomes have dropped much further than for those who are employed<sup>20</sup>. The average income from self-employment in the UK has fallen by 22% since 2008/09<sup>21</sup>.

Self-employed people are also not protected by the minimum wage. Perhaps unsurprisingly, many of the Business Debtline callers we surveyed take an income from their business that falls well below the level of this safety net.

These issues can be further exacerbated by the challenges of operating a business. Our advisers report that many callers to Business Debtline need support to do a business budget and calculate their turnover and profitability. This can be for a range of reasons, including the fact that the business is a new start-up or because the work is sporadic or seasonal in nature. Factors such as the apparent complexity of doing tax returns have also made ‘sorting out the books’ seem even more overwhelming, especially for those unable to pay for the services of an accountant to help them. The announcements in this year’s budget to abolish annual tax returns in favour of a ‘real-time’ process are welcome, and we hope that the new process will make it less onerous for our businesses.

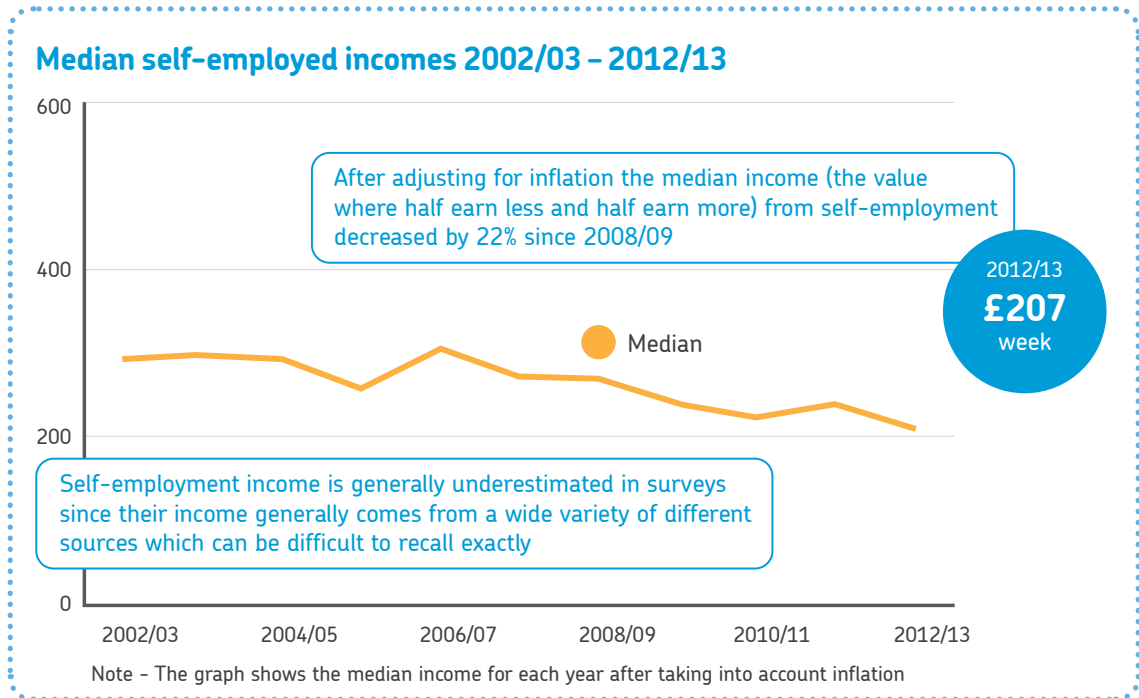
Our experience of helping clients shows us that there is also a significant gap in the provision of support to enable people to acquire the skills necessary to operate their business finances. This means that some people start trading without an understanding of the basic skills needed. They may also not have a grasp of what to do to prepare ahead, including some of the ‘ground work’ they need in place to ensure that their business has the best possible change of success. Without this, there is a risk that they will be less likely to have a grasp of their finances, and subsequently less likely to spot their financial difficulties until their situation has become more extreme.

## More than a third of the Business Debtline callers surveyed earn less than £100 a month from their business.

Over two-thirds of the Business Debtline callers we surveyed have other sources of income coming into their household and a significant proportion are not the sole earner in the household. Over half receive benefits and just under half get tax credits, whilst a smaller number supplement their income with a part-time job.

**Figure 5**

Source: ONS, Self-employed workers in the UK, August 2014.



20. Resolution Foundation. Just the job – or a working compromise?, May 2014.

21. ONS, Self-employed workers in the UK, August, 2014.

### 3.4 Working hours

The Working Time Directive sets out in law that employed people do not usually have to work more than 48 hours a week on average. However, there is no similar protection for the self-employed and over a quarter of the Business Debtline clients we surveyed are regularly working more than 50 hours a week and almost 8% are working over 70 hours a week. Despite this, a significant number of those surveyed report that they feel under-employed and do not feel they are working enough hours to be able to make ends meet.

There are suggestions that self-employment takes some of the pressure from unemployment levels, resulting in fewer people being counted amongst those without a job. In addition, where people remain underemployed for prolonged periods of time, it may be a sign that the economy is weaker than anticipated, with the problem masked by the buoyant self-employed figures.

Over a quarter of the Business Debtline callers we surveyed are working **more hours than the 48 hours** the UK Working Time Directive sets out for those who are employed.

#### Recommendations

##### Support with real-time accounting

While we welcome the abolition of the annual tax return announced in this year's Budget and the modernisation of the tax system, this will be a significant upheaval for the self-employed. It is vital that the Government ensures that the self-employed are given the advice they need to manage this transition to real-time accounting, and that any penalties for missed deadlines are proportionate.

##### Improve data in official statistics on self-employed incomes

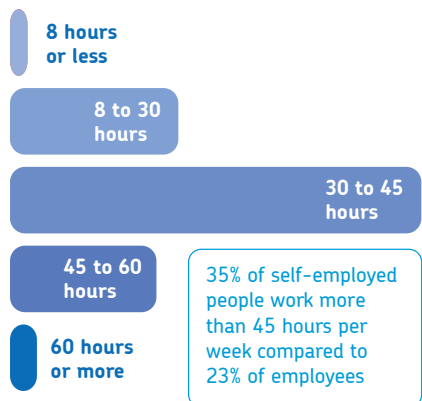
Self-employed workers are not included in most official income statistics. With close to 5 million people self-employed, it is vital that comparative and timely data on average incomes of this group is captured to inform policy making. The move to real-time

##### Improve access to support and information

Despite the availability of some advice for businesses, it is evident from our experience that some people are still starting a business without the necessary background skills to be able to operate it effectively. The 'I'm a good plumber but useless at paperwork' approach stores problems up which inevitably rise to the surface further down the line. Since the demise of Business Link, efforts have been made to make information available to help self-employed people (for example via GOV.UK and Great British Business). However, this does not sufficiently replace what was lost and more needs to be done to provide and promote the availability of free, independent advice and support to help people throughout the life-cycle of their business.

Percentage of employees and self-employed by the number of hours they usually work, April-June 2014 UK

#### Employees



#### Self-employed

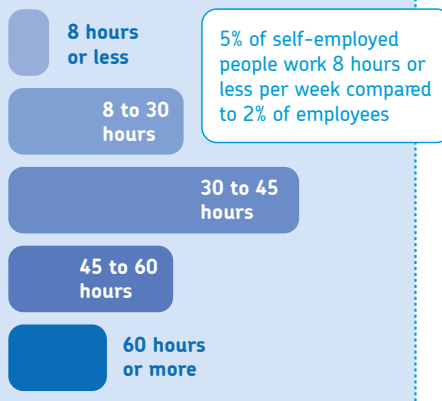


Figure 6

Source: ONS, Self-employed workers in the UK, August 2014.

# 4. Managing day-to-day

Many self-employed and micro-businesses will prosper as the economic recovery continues. For these successful businesses, recent trends herald a welcome upturn in trade and increased confidence. It is vital that the Government continues to focus efforts on ensuring these growing businesses have the help and support they need to continue to thrive, and we welcome the range of initiatives introduced to achieve this.

However, it is also vital that there is a safety net to help those businesses for whom the economic recovery has not brought about prosperity. As the self-employed population grows, becoming a bigger and more integral part of our economy and society, we need to ensure we fully understand the changing make-up of this population and the drivers behind its growth. Most importantly, we need to understand the financial opportunities and risks, how people are managing day-to-day and make sure guidance and support are responsive for those at the vulnerable end of the spectrum.

## 4.1 Working from home

Many micro and small businesses will not operate out of business premises, instead using their home as a base. In 2013, there were 2.9 million home-based businesses; an increase of nearly half a million since 2010. They contribute in the region of £300 billion to the economy<sup>22</sup>. Whilst operating from home has many benefits, including removing some of the costs involved with acquiring a separate business premises, it also has a number of implications. These range from the need to notify any mortgage provider or landlord, home and contents insurance and to taxes including business rates, and Capital Gains Tax if the property is later sold. Other cost implications such as increased gas and electricity bills, and appropriate liability insurance where customers visit the premises also need to be considered.

Navigating the legal and practical requirements in setting up at home can be difficult and in acknowledgement of this the Government published a Home Business Guide which set out the legal position<sup>23</sup>. In August 2014, a package of measures including updated business rates and planning guidance was also announced with the aim of making it easier to start and run a business from home<sup>24</sup>.

However, it is clear that awareness of information and support amongst those choosing to run their business from home is patchy and more needs to be done to ensure that it is reaching the intended audience.

## 4.2 Debts

The day-to-day challenges in trading that some businesses face are illustrated by the significant changes we have seen to the levels of debt Business Debtline callers are now struggling to repay. Our clients are accessing lower levels of credit but finding that their finances are squeezed to such a degree that even these are becoming unmanageable. The proportion of our callers finding it hard to repay relatively low-level debts of £5,000 or less doubled in 2014 when compared to 2010. Those owing £10,000-£15,000 also increased and now account for almost 20% of our callers.

However, whilst those businesses owing £30,000-£50,000 have diminished, they still account for over 10% of callers in 2014, as do those owing £50,000-£100,000. Similarly, having peaked at 9% in 2011, those owing £100,000 or more plateaued in the following two years before showing a slight drop to 7% this year. This indicates that, for some businesses, high levels of unmanageable debt continue to be a burden.

The proportion of Business Debtline callers **struggling with debts of less than £5,000** doubled in 2014.

22. Dept for Business, Innovation and Skills, Small Business Survey 2012 and Business Population Estimates. 2012.

23. <https://www.gov.uk/government/publications/the-home-businessguide>

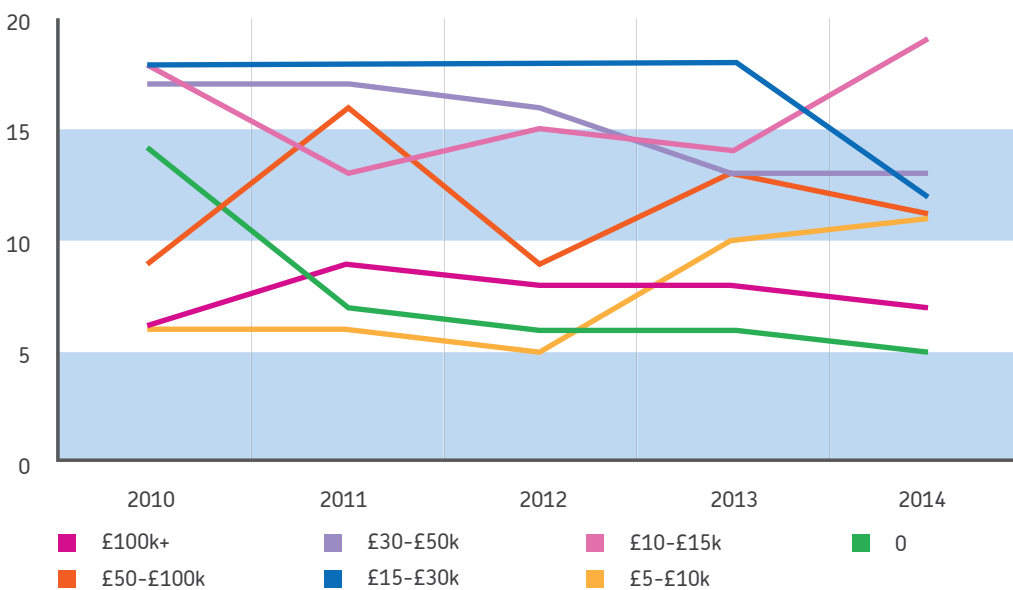
24. GOV.UK, Backing for home-based business. August 2014.

The proportion of callers to Business Debtline with **problems paying** their utility bills has **almost quadrupled** since 2010.

Figure 7

Source:  
Business Debtline,  
all callers 2014

### Proportion of callers to Business Debtline with debt levels from £0-£100,000+



### Recommendation

#### Continue to encourage a support-seeking culture

We would like to work with business support organisations to pro-actively encourage self-employed people to seek support and advice throughout the life cycle of their business. In particular, we would like to ensure that those experiencing financial difficulty are signposted to Business Debtline to get the help that they need to tackle their debts and manage their finances.

The challenges of operating a successful and profitable small business, coupled with the rising cost of living have left many of those surveyed unable to meet basic costs despite cutting back on their expenses.

In an attempt to keep up with their bills, some people start to use personal credit such as a credit card to

pay for day-to-day essentials like food. This practice, combined with the use of personal credit to cover business expenses, such as paying for suppliers, can leave people saddled with unmanageable debt.

In 2014, over 20% of Business Debtline callers reported difficulties repaying personal debts. This suggests there is clearly a tipping point past which reducing spending and using credit ceases to have an impact. After this point, people begin to fall behind with their essential bills and credit payments.

The proportion of callers to Business Debtline reporting problems with their utility bills has almost quadrupled since 2010<sup>25</sup>. During this time, the increases in the cost of both gas and electricity, as well as many other business expenses, left many unable to keep up with payments.

Concerns have been expressed over an unequal playing field for small businesses compared to domestic utility customers. The 'big six' utility companies have promised better support for

25. Note that some of this increase is accounted for by increased referrals by energy companies to Business Debtline.

Real stories:

## Haroon, the local grocer

Haroon runs a local grocery store based in London. He leases the business premises and his wife works there part-time too. When he contacted Business Debtline his business was relatively new and had been trading for 15 months. He had multiple personal debts, but only one business debt for electricity arrears of £3,000. The business had trading assets, but did not have the funds available to clear his electricity arrears in full.

There had been a few issues with the electricity supply. The business was originally placed on the wrong tariff, which was much higher than Haroon had expected. He got behind with his payments and although the error with the tariff was corrected, he struggled to catch up.

He originally agreed a repayment amount for the money owed with the electricity company, but it was too high and he failed to make most of the payments. By now, his electricity supplier was threatening to

disconnect him. This would have meant the business could no longer trade; frozen or chilled stock would be destroyed and the family would be left without an income.

Business Debtline provided Haroon with advice on strategies to deal with the electricity debt and focused on working out an affordable repayment he could stick to. Completing an income and expenditure analysis for the business was essential to check that the business was viable and to assess what he could draw against the business as income.

As a result Haroon made another offer of repayment to the supplier which was accepted and he has been able to make additional payments on top to try to repay the debt off quicker. He is hoping to clear it within three months.



Business Debtline provided Haroon with **advice on strategies** to deal with the debt and focused on working out an **affordable repayment** he could stick to.



businesses by stopping the practice of automatic rollover contracts, (the practice of requiring advance notice in writing to terminate a contract and avoid automatic renewal, potentially at an uncompetitive tariff). However, there is still some way to go to ensure that the self-employed are treated in the same way as domestic customers. This includes improved tariff information and pricing transparency to make price comparison and switching easier, and passing on the benefits of energy tariff reduction to business customers and not just domestic customers.

These issues can be further exacerbated by the challenges of operating a business. Our advisers report that many callers to Business Debtline need support to do a business budget and calculate their turnover and profitability. This can be for a range of reasons, including the fact that the business is a new start-up or because the work is sporadic or seasonal in nature. Factors such as the apparent complexity of doing tax returns have also made 'sorting out the books' seem even more overwhelming, especially for those unable to pay for the services of an accountant to help them. The announcements in this year's budget to abolish annual tax returns in favour of a 'real-time' process are welcome, and we hope that the new process will make it less onerous for our businesses.

Our experience of helping clients shows us that there is also a significant gap in the provision of support to enable people to acquire the skills necessary to operate their business finances. This means that some people start trading without an understanding of the basic skills needed. They may also not have a grasp of what to do to prepare ahead, including some of the 'ground work' they need in place to ensure that their business has the best possible change of success. Without this, there is a risk that they will be less likely to have a grasp of their finances, and subsequently less likely to spot their financial difficulties until their situation has become more extreme. Small businesses taking part in a recent survey which showed that two thirds (65%) thought it was difficult to switch energy supplier. Amongst those who attempted to switch, the biggest problems cited were unclear notice periods, complicated contract terms and the speed of the switching process<sup>26</sup>.

The level of priority business debts amongst Business Debtline clients is significant. Over 7% owe money to HMRC and 4% are struggling with business rates or council tax debts. Others owe money on business mortgages, business leases and business utility bills as well as to suppliers. These debts are particularly critical as many impact on whether the business can continue to trade.

## Recommendations

### Review the business rates regime

We welcome the current review of the business rates regime. It is crucial that the review considers how the rates system can be used to better support small-business owners who are struggling, including those in temporary difficulty. For example, many councils run hardship relief schemes, but there is a need for greater provision of rate relief to help businesses weather rough periods of trading.

### Extend creditor best practice to include small businesses

In recent years there have been many improvements in the way creditors approach debt and financial difficulty, but too often small businesses receive different and less positive treatment for no good reason. There now needs to be a focus on ensuring that best practice approaches are applied to small-business customers wherever possible. Precipitate creditor action can jeopardise the survival of viable businesses, leading to detriment all round. In particular, priority creditors such as utility suppliers and HMRC should ensure that they take into account individual circumstances, base debt repayments on affordability and develop proactive approaches to financial difficulty.

More than **1 in 10** Business Debtline callers surveyed owe more than £20 in business debts for every £1 they earn in a year. Some reported having business debts of **more than 40 times** the annual income they take from their business.

26. Federation of Small Businesses, Small Business Survey. May 2014.

Real stories:

## John, the builder

John is a builder based in Sheffield. He set up his limited company three years ago using his savings and had been trading successfully before one of his largest customers stopped paying.

The customer owed John over £20,000 and with a hole in his cash flow he began to fall behind with payment to his suppliers. At the time he called Business Debtline he owed his main supplier over £15,000. At that point they had refused his offers of repayment and threatened him with a compulsory winding-up order through the courts.

Business Debtline helped John to complete a business budget and found that he could afford to make an offer of repayment to his supplier that would clear the debt within six months. They advised him about how to put the offer to the supplier and provided sample letters to help. They also told him about recovering the money his customer owed him by going through the courts.

As a result of this advice John was able to agree an offer of repayment with his supplier and is also seeking legal advice about pursuing the money from his late-paying customer through the courts.



Business Debtline helped John to **complete a business budget** and found that he could make an offer of repayment to his supplier to clear the debt.

If creditors do threaten legal proceedings to secure payment, a business owner usually has two options: try to save the business while attempting to settle outstanding accounts or allow the business to fail by implementing an exit strategy that minimises the financial consequences. In Scotland, however, the Government has legislated for a new formally recognised debt support tool for businesses that allows small businesses to fulfill their obligations to creditors and continue to trade<sup>27</sup>.

The amount of money owed to their suppliers by the self-employed and micro-businesses that are in financial difficulty is only one side of the coin. Many clients are in the position where their business is owed money for the goods and/or services they have supplied to others. For small businesses in particular these debts can be crippling and create a cycle of problems relating to cash flow

The amount of money owed to their suppliers by the self-employed and micro-businesses that are in financial difficulty is only one side of the coin. Many clients are in the position where their business is owed money for the goods and/or services they have supplied to others. For small businesses in particular these debts can be crippling and create a cycle of problems relating to cash flow.

Evidence suggests that this is indicative of a wider problem in the UK, with estimates that 76% of businesses are forced to wait three months or more for payment. This results in over a quarter (26%) becoming reliant on an overdraft to make ends meet<sup>28</sup>. SMEs are owed £39.4 billion in overdue bills compared to £6.7 billion owed to large firms. One in four felt that if the amount owed to the business increased to £50,000 or more, they would be facing bankruptcy<sup>29</sup>.

Those businesses offering their own customers trade credit are similarly impacted with a quarter of businesses taking part in an SME survey reporting that this meant they had an increased need for other forms of external finance<sup>30</sup>.

## Recommendations

### Explore options to develop new debt support solutions for small businesses

The Business Debt Arrangement Scheme in Scotland allows debts, such as VAT and PAYE arrears, as well as debts to other creditors, to be repaid while a business maintains the on-going credit facilities which are often essential for survival. Under the terms of the scheme, monthly payments are agreed, and creditors must freeze interest and charges and cannot take further action to enforce payment of the debt. The scheme also protects assets, including the family home. It is reviewed annually and can last up to 5 years. We recommend that the impact of this scheme is monitored, and options to create a similar scheme for England, Wales and Northern Ireland are explored.

To combat suggestions that the Government and local authorities are amongst the worst offenders for late payment, the Government has set out measures to strengthen its Prompt Payment Code. This voluntary code currently has over 1,700 businesses signed up to it and promotes a 30 day standard payment limit with a commitment to make all payments within 60 days. The code is intended to compliment tougher reporting laws which require the UK's largest firms to publish their payment terms. A code compliance board has the remit to use this data to check the performance of code signatories and consider 'naming and shaming' late payers.

The causes of late payment are also complex and may not stem from an intention to delay the release of monies but instead be the result of internal payment practice inefficiencies within organisations. Whilst this does little to ease the burden that such problems put on the small- business owner, having a better understanding of the causes of late payments may help when seeking effective solutions to tackle them.

In addition, the problem can be further exacerbated by the understandable focus of small businesses on securing and renewing contracts at whatever cost. This may lead some to enter into agreements without fully considering or attempting to negotiate reasonable contractual payment terms. Raising awareness of this issue amongst new and existing business owners, and considering the feasibility of measures such as a 'fair contractual payment terms' standard could help to address these problems.

27. This applies to legal entities e.g. partnerships, limited partnerships, trusts and charities.

28. BACS news release, Late payments are forcing businesses to make tough decisions. February 2015.

29. BACS news release, UK businesses face a late payment burden of 46.1 billion. July 2014.

30. BDRC Continental, SME finance monitor Q4.2014.

**Recommendations**  
**Tackle late payments**

We welcome the Government’s plans to consult further on measures to tackle late payment by large firms. We know that late payments can have a devastating impact on those small businesses least equipped to cope with the resulting cash -flow problems. The proposals to oblige large and listed companies to publish detailed information about their payment practices will hopefully take a step towards achieving this. However, businesses and public bodies are free not to sign up to the voluntary Prompt Payment Code, weakening the intentions behind these measures. We would like signing up to the code to become mandatory rather than voluntary. We would also like to see penalties for breaching the code, including the automatic application of interest in the case of late payment. In addition we would like to see the Government require all public sector agencies to pay invoices promptly with penalties for failing to do so.

We would also like consideration to be given to ways of empowering business owners to reduce the likelihood of late payment by helping them to improve their contracts and factor in reasonable contractual payment terms. This needs to include raising awareness of the need to do this when negotiating contracts, and considering a ‘ fair contractual payment terms’ standard.

Whilst it is encouraging to see that this issue is being given an increasingly high profile, it is clear that more can be done to tackle the crippling impact of late payment on business, including commissioning an independent review to look at further measures<sup>31</sup>.

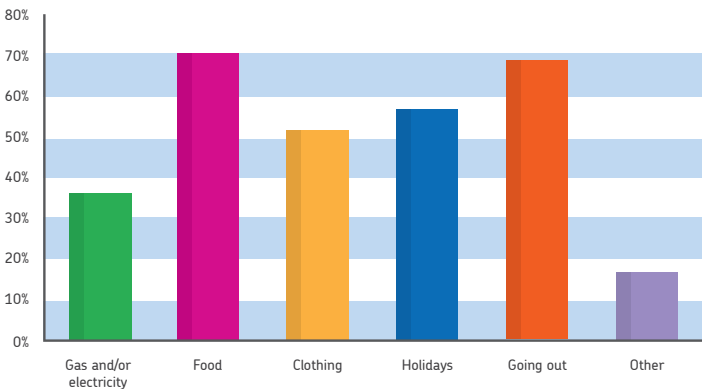
**4.3 Cutting back**

A significant number of the people contacting Business Debtline who took part in the survey reported cutting back on essential household expenditure such as energy bills and food in an attempt to make ends meet. Others had started to reduce spending on other areas including clothing and holidays.

Over a third of those surveyed reported cutting down on gas and electricity usage and over 70% reducing their spending on food. Given that many of those surveyed had one or more children in their household, the impact of running a struggling business on day-to-day family life becomes clear. Some callers explicitly expressed concern over the more direct effect their financial situation was having on their children. This included no longer being able to afford to pay for children to go to out-of-school clubs and pursue hobbies, or to take them on family outings.

**Figure 8**

**The percentage of Business Debtline clients surveyed who cut back on spending**



Source: Business Debtline client survey

31. Federation of Small Businesses, February 2015.

**Recommendation**

**Encourage energy suppliers to pass on savings to business customers as well as domestic customers**

When energy customers announce that they are passing on reductions in wholesale prices to their domestic customers, all too often small businesses fail to reap the benefit. Energy companies' failure to pass on cost cuts to domestic customers often makes big news but the same unfair treatment afforded to small business customers receives little attention. We would like to see small business consumers treated in the same way as domestic customers, with reductions in wholesale costs being passed on through lower energy bills.

**4.4 The personal cost**

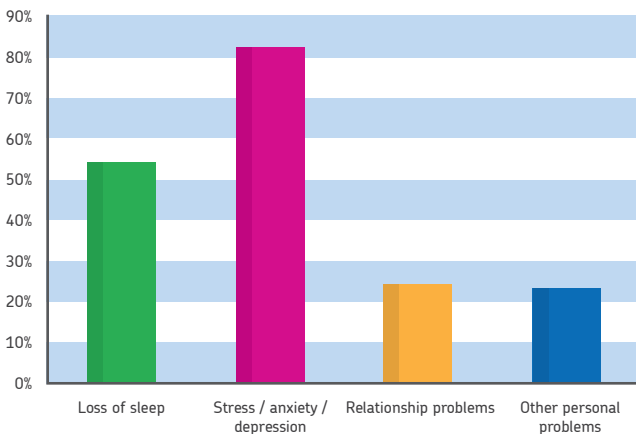
The effects that being in debt can have on health and well-being are well documented. In particular, there is evidence of a link with mental-health problems which can include anxiety and depression. Some studies suggest that one in two adults with debts has a mental health problem and one in four people with a mental health problem are also in debt<sup>32</sup>.

A worrying proportion of those Business Debtline callers who took part in our survey reported suffering from a range of issues relating to their debt problems, including more than half losing sleep and many suffering from stress and anxiety. The stress and worry of debt also took its toll on the relationships of those surveyed. Almost a quarter said that they were experiencing relationship problems as a result of their debts. More specifically, individual clients reported issues ranging from suicidal feelings, stress-induced vertigo and significant weight loss as a result of anxiety and a lack of money to buy food. Commonly, clients said that the worry of their debts meant that they were unable to focus on their business, thereby exacerbating the problems they were facing,

These issues can create havoc with peoples' home lives making it harder for them to cope with their debts and trapping them in a cycle that can feel hard to break.



**Percentage of Business Debtline clients surveyed reporting personal problems as a result of their debts**



**Figure 9**

Source: Business Debtline client survey

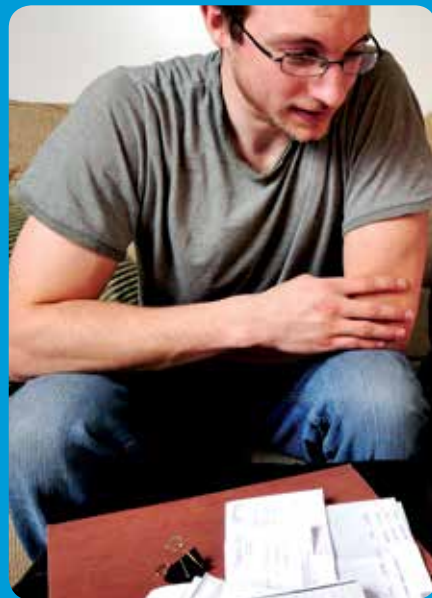
32. Royal College of Psychiatrists and Money Advice Trust, 12 Steps for treating potentially vulnerable consumers. November 2014.

Real stories:

## Terry, the B&B owner

Terry is a sole trader, based in the North who runs a B&B. He also lives there with his 12 year old son who he fostered 3 years ago. He is a long-term trader having been in the business for 22 years.

He had an unforeseen injury 12 months ago and was forced to temporarily stop working due to his immobility. He employs one full-time and two part-time staff but this was not enough to cover his absence and he was forced to reduce the number of guests he took at any one time. As a result he had lost around £25,000 of turnover.



Terry had been substituting the lost earnings with his savings, but these quickly ran out, leaving him without a safety net. He is now recovered and working full-time but has gas arrears of £3,000, business rates arrears of £1,500 and VAT arrears of £7,000 as well as £21,000 owed on credit cards. He had been trying to make payments here and there, especially on the credit card debts.

It was important that Terry started to tackle his priority debts and Business Debtline therefore told him that he needed to deal with his business rates, VAT and electricity debts first because he has an 'open door' business which means he was particularly vulnerable to bailiff action from these creditors. In addition, the gas supplier didn't need a court order to disconnect the business supply and this would stop him trading.

Business Debtline helped Terry with a business budget and advised that as the business started to pick up again the budget should be reviewed. They checked that the business could now cover its running costs and pay towards its debts, and helped him to work out what he could afford to offer. It is difficult to find any trust funds to help with business utility debts, but Business Debtline did manage to find a foster care charity to see if they could offer any short-term financial assistance with his son.

Terry had been **substituting the lost earnings with his savings**, but these quickly ran out, leaving him without a safety net.

# 5. Financial resilience

Many self-employed people do not have a financial safety net to fall back on, leaving them in a precarious position. Savings, in particular, are a key part of achieving short, medium and longer-term financial resilience. As well as a lack of resilience against unforeseen life events, the lack of any saving provisions can signify a longer-term problem as retirement approaches. With the number of self-employed people in the UK growing this could be storing up a ticking time bomb for the future.

## 5.1 Savings

**The Business Debtline callers we surveyed are almost three times less likely to have any savings compared to the wider UK population.**

Callers to our helplines could benefit greatly from having a small savings pot to provide a cushion when they hit a difficult period. 91% of the self-employed callers we surveyed have no savings. This is in stark contrast to the wider UK population where a report suggests 67% of people are saving<sup>33</sup>.

Of the few Business Debtline callers who had managed to save some money, over a third had savings totalling less than £1,000 which is not enough to cover even the combined monthly mortgage and council tax bill for the average household. This leaves these households vulnerable to income shocks such as a cut in hours, ill-health, relationship breakdown or bereavement. It also leaves them exposed when it comes to covering rising bills such as the anticipated mortgage interest-rate rises.

Our advisers also increasingly receive calls from individuals who have a deficit budget - where their income does not match their regular expenditure. When this happens, people are forced to cut back on their essential outgoings and savings can be one of the first things to be hit. Any past savings can quickly become depleted as they try to make up the shortfall in their incomes, putting them at greater financial risk.

## 5.2 Pensions

For self-employed people, saving into a pension can be a more difficult habit to develop than it is for people in employment. There are no employer contributions and irregular income patterns can make regular saving difficult.

Self-employed people are entitled to claim the basic state pension in the same way as anyone else. However, qualifying for the full amount requires thirty years of National Insurance contributions which can be difficult for some people to achieve.

In addition, the basic state pension is unlikely to provide people with anything like their current standard of living on its own. This makes it crucial for people to plan how to provide for their retirement<sup>35</sup>. It is estimated that a single pensioner needs at least £8,600 a year to reach a minimum socially-acceptable standard of living, whilst a retired couple needs an annual income of more than £12,500. However, the basic state pension is equal to just £5,881.20 for an individual or £11,762.40 for a couple<sup>36</sup>.

From 2016, the Government plans a single-tier state pension which will include self-employed people. However, there is no intention to include an element of auto-enrolment as there is for employees. This is likely to widen the gap between the employed and self-employed further.

As a result, many current or potential callers to Business Debtline will be in a position where they have insufficient means to live comfortably when they come to retire.

**80% of the Business Debtline callers surveyed have no pension compared to 53% of the wider UK population reported to be saving adequately<sup>34</sup>.**

33. Scottish Widows, Savings Report 2014.

34. Scottish Widows, Pensions Report 2014.

35. Money Advice Service

36. Joseph Rowntree Foundation. 2014

# 6. Banking and borrowing

In 2014, loans to small and medium-sized enterprises (SMEs) increased by £0.1 billion, compared to the average monthly decrease of £0.4 billion over the previous six months. The Bank of England and HM Treasury announced a one-year extension to the Funding for Lending Scheme (FLS) in December 2014. This is intended to provide lenders with continued certainty over the availability of cheap funding to support lending to SME's during 2015. This is part of a package of support introduced by the Government including proposals in the Small Business, Enterprise and Employment Bill to mandate greater sharing of SME credit information and to require banks to share details of SMEs which have been declined finance. This works alongside the Bank of England who are considering the widening of access to credit data to support the provision of credit to SMEs through non-financial intermediary channels, such as trade credit<sup>37</sup>.

However, evidence suggests that the credit market remains challenging for some small businesses, many of whom find that they are refused credit. According to a recent survey, up to 43% of businesses applying for credit in the last quarter of 2014 were rejected<sup>38</sup>.

The credit picture for Business Debtline callers reflects the difficulties the self-employed face more widely when trying to access credit. Overall, the numbers applying for credit remain low, rejections are common and we are continuing to see evidence that people are using personal credit to pay for business costs as a result of the lack of access (either real or perceived) to business credit.



Of those Business Debtline clients we surveyed who were taking out personal credit for business use; the reasons included consolidation of existing business debts or to clear a bill from HMRC. A smaller number of those surveyed had applied for business credit but, of those, few had their applications accepted.

When considering banking facilities, some small-business owners can successfully operate using personal banking facilities including basic bank accounts rather than requiring business-specific accounts. However, difficulties can arise if they rely on the same account for both their home and business finances which can contribute to a 'muddying of the waters'. New businesses in particular can start trading by mixing-up their business finances with their personal money. Whilst this may seem a quick solution in the short-term, it can lead to troubles later down the line. There is a risk that money for household costs will be swallowed into the business, leaving people without the money to cover essential bills like housing costs, council tax and heating. It can also make it hard for people to calculate the finances for their businesses as money gets absorbed into one pot, making it even more complicated to work out tax returns.

37. Bank of England news release. December 2014.

38 Federation of Small Businesses, Voices of Small Business Index Q4. 2014.



## Recommendations

### Improve access to business credit

We welcome the Government's plans to improve the availability of credit for small businesses who want it, which includes extending the Funding for Lending Scheme for a further twelve months. However, it is clear that more needs to be done to make business credit viable, and in particular in encouraging banks to make business credit available to break the dependency on personal finance being used to bridge the gap.

### Improve access to business banking facilities

Whilst some businesses can successfully operate using non-business (personal) bank accounts, we would like to see increased availability of accounts for those wishing to open a separate business banking facility. Products designed to help small businesses to keep track of finances, produce business plans and cash-flow forecasts, and submit accurate tax returns can offer tailored support to the self-employed but these accounts are often unavailable to those with any history of payment problems. We would welcome efforts to develop a widely available basic business bank account to overcome this issue.

### Develop tailored products and services for micro-businesses

Some businesses are at risk of falling below the radar because they are especially small and the option of business banking may not be practical or suit their needs. We would encourage the banking sector to pro-actively reach out to customers who are operating these micro-businesses to offer support and help them succeed.

Being self-employed can also impact on the availability of other types of credit or borrowing which can have far-reaching consequences. Getting a mortgage or providing proof of a stable income to a letting agent in order to be able to rent a property can also be harder for self-employed people.

Following the financial crisis, the Financial Conduct Authority was concerned that lenders were making it too easy to get a mortgage. They introduced new rules under the "Mortgage Market Review" in April 2014, with a view to ensuring that mortgages are affordable for people both at the point of lending and in the future.

Mortgage lenders now require people to provide evidence of income which can be difficult for self-employed borrowers. Their income figures can fluctuate significantly from month to month rather than being a fixed amount like an employed person's basic salary. This means that people with businesses need to show the potential lender their business accounts, signed off by a chartered accountant, and tax returns over a two or three year period. The lender may also ask for business projections as well. All these types of evidence can be difficult for some small businesses to provide.



# 7. Building success

For many of the self-employed people that contact Business Debtline, their business is still viable, and continuing to trade is a major driver. For these people, getting advice can help them to feel more confident about the future as well as giving them the practical skills to get the business back on track.

The current economic climate presents many businesses with opportunities. Low inflation along with lower energy costs are bringing down the bottom line, resulting in the lowest-ever proportion of businesses reporting a year-on-year increase in costs.

A significant number of small businesses are also anticipating growth over the next twelve months and more are expecting to take on new employees as a result. In turn, many are hoping to pass on the benefits of rising productivity to their staff in the shape of increased pay and rewards.

We believe that by supporting the self-employed and small business through services such as Business Debtline we can help them to join the legion of other small businesses who report that they are feeling more optimistic about the future<sup>39</sup>.

“There is nothing more scary than being in debt. **Your service gives hope.**”



39. Federation of Small Businesses, 'Voice of small business' Index Q1. 2015

Real stories:

## Helen, the mobile food seller

Helen is a sole trader based in the north-east. She has a mobile food van that she takes around industrial parks and has been trading for over 15 years. She has put a lot of work in over those years and is very passionate about the business.

Helen had never experienced any difficulty with the business so it was quite a shock to find that she was experiencing a trade shortfall. Her bank had called in both her business overdraft of £20,000 and a personal overdraft of £5,000, leaving her without a business cash flow or banking facilities. In addition to the overdrafts, she also had credit cards totalling £12,000.

Business Debtline advised Helen to open a new safe bank account for the business and her personal finances, and talked through her options for dealing with her debts. They also went through a business budget sheet and helped her with assessing the viability of her business.

Following the advice from Business Debtline, Helen was able to open a new personal basic bank account quite quickly, but unfortunately she was turned down for business banking. This meant she has had to use a personal account for business purposes, making record keeping very hard. Despite this, Helen feels much more confident about the future and is determined to trade on. She has made offers of repayment towards her debts and is waiting to hear back from her creditors.



Helen feels **much more confident about the future** and has made offers of repayment towards her debts and is waiting to hear back from her creditors.

# 8. Our recommendations

The role of small businesses in supporting the UK's economic recovery is evident. The unprecedented increase in the numbers of self-employed people presents an opportunity to ensure that the necessary support is in place to help them to continue to trade and prosper. The benefits of the Government, regulators, creditors and the advice sector coming together to achieve this are clear, both for small businesses and the UK economy. We look forward to exploring further the recommendations set out in this report with stakeholders in 2015 and beyond.

## 8.1 Recommendations for government

### a) Improve access to support and information:

Despite the availability of some advice for businesses, some people are still starting a business without the necessary background skills to be able to operate it effectively. The 'I'm a good plumber but useless at paperwork' approach stores problems up which inevitably rise to the surface later down the line. Since the demise of Business Link, efforts have been made to make information available to help self-employed people (for example via GOV.UK and Great British Business) but it doesn't sufficiently replace what was lost. More needs to be done to provide and promote the availability of free, independent advice and support to help people throughout the life-cycle of their business.

**b) Tackle late payments:** We welcome the Government's plans to consult further on measures to tackle late payment by large firms. We know that late payments can have a devastating impact on those small businesses least equipped to cope with the resulting cash -flow problems. The proposals to oblige large and listed companies to publish detailed information about their payment practices will hopefully take a step towards achieving this. However, companies are free not to sign up to the voluntary Prompt Payment Code, weakening the intentions behind these measures. We would like it to be mandatory to sign up to the code rather than

voluntary. We would like to see thought given to penalties for breaching the code, including the automatic application of interest in the case of late payment. We would also like consideration to be given to ways of empowering business owners to reduce the likelihood of late payments by helping them to improve their contracts and factor in reasonable contractual payment terms, including raising awareness of the need to do this when negotiating contracts, and considering a 'fair contractual payment terms' standard.

**c) Improve access to business credit:** We welcome the Government's plans to extend the Funding for Lending Scheme and provide additional money to support the British Business Bank. Whilst many businesses operate successfully using personal credit products, it is clear that more needs to be done to make business credit viable. In particular encouraging banks to make business credit available will help to break the dependency many small businesses have on using personal credit to bridge the financial gap.

**d) Support with real-time accounting:** While we welcome the abolition of the annual tax return announced in this year's budget and the modernisation in the tax system, this will be a significant upheaval for the self-employed. It is vital that the Government ensure that the self-employed are given the advice they need to manage this transition to real-time accounting, and that any penalties for missed deadlines are proportionate.

**e) Explore options to develop new debt support solutions for small businesses:** The Business Debt Arrangement Scheme in Scotland allows debts such as VAT and PAYE arrears, as well as debts to other creditors to be repaid whilst a business maintains the on-going credit facilities which are often essential for survival. Under the terms of the scheme, monthly payments are agreed, and creditors must freeze interest and charges and cannot take further action to

enforce payment of the debt. The scheme also protects assets, including the family home. It is reviewed annually and can last up to 5 years. We recommend that the impact of this scheme is monitored, and options to create a similar scheme for England, Wales and Northern Ireland are explored.

**f) Ensure the current business rates review includes financial difficulty in its remit:** We welcome the current review of the business rates regime. It is crucial that the review considers how the rates system can be used to better support small-business owners who are struggling, including those in temporary difficulty. For example, many councils run hardship relief schemes, but there is a need for greater provision of rate relief to help businesses weather rough periods of trading.

**g) Improve data in official statistics on self-employed incomes:** Self-employed workers are not included in most official income statistics. With close to 5 million people who are self-employed, it is vital that comparative and timely data on average incomes of this group is captured to inform policy making. The move to real-time accounting may facilitate this.

## 8.2 Recommendations for creditors and utilities companies

**a) Extend creditor best practice to include small businesses:** In recent years there have been improvements in the way creditors approach debt and financial difficulties, but too often small businesses receive different and less positive treatment for no necessary reason. There now needs to be a focus on ensuring that best practice approaches are applied to small-business customers wherever possible. Precipitate creditor action can jeopardise the survival of viable businesses, leading to detriment all round. In particular, priority creditors such as utility suppliers and HMRC should ensure that they take into account individual circumstances, base debt repayments on affordability and develop proactive best practice strategies for dealing with financial difficulty.

**b) Improve access to banking facilities including a new basic business bank account:** Whilst some businesses can successfully operate using non-business (personal) bank accounts, we would like to see increased availability of accounts for those wishing to open a separate business banking facility. Products designed to help small businesses to keep track of finances, produce business plans and cash -flow forecasts, and submit accurate tax returns can offer tailored support to the self-employed but these accounts are often unavailable to those with any history of payment problems. We would welcome efforts to develop widely available basic business bank account to overcome this issue.

**c) Develop tailored products and services for micro-businesses:** Some businesses are at risk of falling below the radar because they are especially small and the option of business banking may not be practical or suit their needs. We would encourage the banking sector to pro-actively reach out to customers who are operating these micro-businesses to offer support.

**d) Encourage energy suppliers to pass on savings to business customers as well as domestic customers:** When energy companies announce that they are passing on reductions in wholesale prices to their domestic customers, all too often small businesses fail to reap the benefits. Energy companies' failure to pass on price cuts to domestic customers often makes big news but the same unfair treatment extended to small-business customers receives little attention. We would like to see small-business customers treated in the same way as domestic customers, with reductions in wholesale costs being passed on through lower energy bills.

## 8.3 Recommendations for support organisations

**a) Encourage a support-seeking culture:** We would like to work with business support organisations to pro-actively encourage self-employed people to seek support and advice throughout the life cycle of their business. In particular, we would like to ensure that those experiencing financial difficulty are signposted to Business Debtline to get the help that they need to tackle their debts and manage their finances.

# 9. Tips for the self-employed and small business owners

- a) **Get advice early to help you deal with the problem:** It is never too late to get support but the sooner you start to tackle your debts, the better. Business Debtline offers free, expert, professional debt advice for people across the UK. We are a unique service and help the self-employed and small businesses deal with their debts in an informed and active way.
- b) **Do a business and household budget:** It is an essential tool to help you tackle debt problems. Whether you are a sole trader, a partner in a partnership or director of a limited company, it is important to assess your income and expenditure and ensure your overheads are proportionate to your income. This will also help you to identify where you may be able to cut costs and increase profitability margins in order to maximise the wage you can draw.
- c) **Make sure you have explored all of the options to maximise your income:** Many people are in debt because they don't receive all the money they are entitled to. You may be able to claim benefits or tax credits as well as help with energy costs along with other ways of boosting your business and household income. There can be a lot of confusion about the benefits you are entitled to if you are self-employed and it's always worth getting expert advice to guide you.
- d) **Not all debts are equal:** If you have arrears on personal or business priority debts such as a mortgage, rent or utilities, council tax or business rates and you want to continue trading it is important to pay these before credit debts like loans and credit cards. Getting debt advice will help you to find a way to deal with your debts.
- e) **Complete your tax and other returns on time:** This will avoid you incurring penalties and additional costs. If you can't afford an accountant because you have a low income there may be other ways you can access help with your paperwork.
- f) **'Put aside' for your pension:** Even if you are struggling with debt it is important that you account for making Class 2 National Insurance contributions when you do a budget. This will mean you can keep up the payments that you need to be entitled to a state pension when the time comes, as well as contribution-based benefits.
- g) **Open up a business bank account:** This will help you to keep your finances separate and avoid money you need for your personal household being swallowed up by the business.
- h) **Think carefully before propping your business up with personal credit:** It can make business finances confusing. Advice can help you to keep them separate from the business.
- i) **Get help deciding whether your business is viable:** Whilst many businesses can continue to trade, for some this is not a realistic option. Many people find this a hard decision to make, and it can be a daunting task to disengage from the business and look at the alternatives. Getting advice can help you to identify if there is a realistic and workable plan to get your business back on track. If the business is no longer viable it is important to know how to wind it up.
- j) **Don't put your head in the sand:** Although it may be tempting to avoid contact with creditors this is rarely the best option and can make things worse. Get advice early!



ADVICE YOU CAN TRUST

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## Money Advice Trust

The Money Advice Trust (MAT) is a charity formed in 1991 to help people across the UK tackle their debts and manage their money wisely.

# MONEY ADVICE TRUST

BUSINESS  
DEBTLINE

NATIONAL  
DEBTLINE

WISER  
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[www.moneyadvicetrust.org](http://www.moneyadvicetrust.org)

[www.businessdebtline.org](http://www.businessdebtline.org)

[www.mymoneysteps.org](http://www.mymoneysteps.org)

[www.nationaldebtline.org](http://www.nationaldebtline.org)

[www.wiseradviser.org](http://www.wiseradviser.org)

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