BUSINESS DEBTLINE

MONEY ADVICE TRUST

BUSINESS DEBTLINE NATIONAL DEBTLINE WISER ADVISER

ADVICE YOU CAN TRUST

Taking care of business

Eight key challenges facing small business owners

November 2018

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 with confidence.

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. We are also the leading training body for UK debt advisers through our Wiseradviser service and provide training and consultancy to companies who engage with people in financial difficulty.

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 dedicated debt advice service for the self-employed and small business owners. In 2017 Business Debtline helped 29,200 people on the phone to tackle their debts, and helped 7,100 people through our webchat service. In addition, there were 167,300 visits to the Business Debtline website.

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

After receiving advice from Business Debtline:[1]

- 79% made contact with creditors themselves;
- 86% felt they were less likely to find themselves in a similar situation; and
- 58% said the advice they received helped them to continue trading.

1. Survey results of callers 9-15 months after contact

Contents

This report has been produced by the Money Advice Trust. We would like to acknowledge and thank the Financial Conduct Authority and Experian for their support in its production.

Foreword

Self-employment and small business ownership continues to grow and plays a crucial role in driving forward our economy. While many of these businesses are able to flourish, a growing number are struggling with high levels of debt, putting both their business and personal finances at risk.

Our Business Debtline advisers help tens of thousands of the people behind these businesses every year – and in this report we delve into some of the key challenges they face.

Last year Business Debtline helped more than 36,000 people to tackle their business and personal debts, with 167,300 people seeking help from our website. Demand for this unique service is increasing and we are continuing to grow this aspect of the Money Advice Trust's work. By the end of this year we will have 45 dedicated advisers at Business Debtline, helping even more small business owners who need our advice and support.

After receiving advice from Business Debtline, 92% of callers tell us they have reduced or stabilised their debts – and 58% say the advice they received helped them to continue trading.

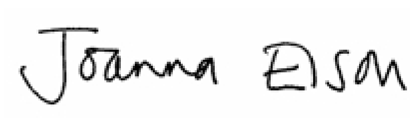
Issues such as late payments, low and variable incomes and sometimes a lack of business management skills are at the heart of many of the problems that our advisers help small business owners to resolve.

Many of the people behind these businesses are in need of advice and information at a much earlier stage of their journey. With self-employment having grown to 15% of the workforce, the support available for this vital part of the economy has not caught up.

When it comes to supporting small business owners in difficulty, there has been positive news this year – with the government confirming its intention that the new Single Financial Guidance Body should have self-employed people firmly within its remit, and the Treasury announcing the inclusion of sole traders in the government's planned Breathing Space scheme.

However, still more needs to be done to make sure that small business owners receive the support they need to succeed. In this report we set out recommendations for government, creditors and the advice sector to consider to achieve this aim.

As we move towards the end of 2018, there are real opportunities for us to work together to help more small business owners tackle the challenges they face – and we look forward to exploring these with our partners in the months ahead.



Joanna Elson OBE

Chief Executive, Money Advice Trust

Executive summary

The significant growth in the number of people who run a small business in the UK has been a marked feature of recent years. Self-employment in the UK currently accounts for 15% of total employment. While many people choose self-employment as they like working for themselves, others may become self-employed out of necessity. 47% of businesses in the UK are single employee limited companies, which have been growing in number in recent years, and sole proprietors now represent 17.5% of total businesses.[2]

Every year we help thousands of people in these groups through Business Debtline, the UK's only dedicated debt advice service for people who are self-employed and small business owners. As a result, we are uniquely placed to help tell the stories of the people behind small businesses that are struggling. Using insight from data that our advisers collect during calls and our client surveys, as well as input from Experian, we present an analysis here of the profiles of the people we help and the challenges they face. The people who contact Business Debtline for advice come from a wide spectrum of trades, with the most common being construction, wholesale and retail, professional, administration and hospitality. They are more likely to be men, often aged 36 to 50 and tend to live in rented accommodation.

Most people come to us because they are in debt, either through their business or personal circumstances. Half of the people we helped in 2017 had total debt over £10,000, with about a quarter of the instances exceeding £30,000. It is quite common for the people we support to have both business and personal debts, for example many will use personal credit to support their business. The most common problems reported to us tend to be personal creditors, trade shortfall, worries about business income tax, VAT and trouble paying utility bills.

Worryingly, for many of the people we help, debt is not the only problem they face. Ill-health and other vulnerable circumstances also often feature. The most common reasons people give for falling into debt are business failure (30%), followed by taking out too much credit (18%), poor money management (16%) and ill-health or disability (14%).

Sometimes people underestimate their problems or leave it until it is too late to contact our advisers. One in four people said that they had already been struggling with debt for over two years when they called Business Debtline for advice. The stress associated with debt problems and the fear of judgement were the main reasons for delaying seeking help.

Drawing on our data, we have identified eight key challenges that our clients face.

Low and uncertain income: very low and irregular income can be an issue for many of the people we help, with 39% of those surveyed saying that their business' gross annual income was below £25,000. People who are self-employed tend to earn lower incomes on average than employees, giving rise to particular challenges. The added uncertainty of income serves to exacerbate these.

Late payments: late payments remain an issue for many people who run small businesses. Almost half of Business Debtline clients surveyed said that they had experienced problems with late payments in the past. Late payments can be a particularly common issue for some trades, such as artists or interpreters. Large companies and local authorities are also amongst late payers. Cash flow issues caused by late payments can have a significant detrimental impact on both business and personal financial circumstances.

2. Office for National Statistics, Statistical bulletin: UK business activity, size and location 2017 – UK businesses broken down by legal status, industry, region, employment and turnover size bands, October 2017

Use of banking products: people who are self-employed tend to use a personal current bank account for managing their business finances. Two in three Business Debtline clients surveyed said that they use a personal current account to manage their business finances. Often this is the same current account they use for managing their household finances. Using a single bank account for everything can complicate their finances and debt problems further.

Business management skills gap: people who enter self-employment do not always have the experience and skills needed for running their business. While someone might be passionate about a business idea, or skilled at a particular trade, it does not necessarily mean they have the business acumen required to help them succeed on the business side. Even though most of our surveyed clients said that before becoming self-employed they felt confident to do a budget and calculate cash flow, they were less confident about constructing business plans and compiling tax and VAT returns. With business failure being one of the main reasons our clients said they fell into debt, there is no doubt that lack of essential business management skills is a key contributor to this in some instances.

Vulnerable circumstances: being in a vulnerable situation can make it difficult to cope with debts. Equally, people with debts often consider themselves as being in a vulnerable situation. The majority of our surveyed Business Debtline clients (69%) considered themselves as being in a vulnerable situation when they contacted Business Debtline for advice. Some felt vulnerable because of their financial situation, while others because of an underlying condition such as physical or mental health, bereavement of other personal circumstance. These types of circumstances, which significantly impact the life of the person behind the business, make it more difficult to cope with debt — and will be a key reason why some businesses struggle more than others.

Problems with tax and benefits: calculating and declaring tax can often be a challenge, and tax bills sometimes come as an unexpected surprise for people who run small businesses. The complex rules, systems and forms around tax and benefits can be a challenge to navigate. A significant proportion of the people we help are in receipt of benefits, as well as being self-employed or micro businesses, again indicating how low and variable incomes tend to be an issue. It is more complicated for people who are self-employed to claim benefits due to their irregular and uncertain incomes, particularly as the assumption is that anyone who is self-employed earns the national minimum wage when calculating universal credit entitlements. Added to this, many people are unaware they can claim benefits in the first instance.

Lack of financial resilience: saving for the future can be difficult for people who are self-employed and have lower incomes. Half of the surveyed clients said that they have not been contributing to a private pension, neither have savings. Lack of adequate income was one of the main reasons. Variable income also makes it difficult to make regular savings.

Experiences with creditors: whilst most people have positive experiences with creditors and they come to arrangements to repay their debts, around one in three of our surveyed clients said that they felt that they had not been treated fairly by some of their creditors.

These eight challenges tend to be common for many people who run small businesses. As self-employment, in particular, is becoming more prevalent, it is paramount that these challenges are successfully addressed.

BUSINESS DEBTLINE

EIGHT KEY CHALLENGES

FACING SMALL BUSINESS OWNERS

1. Introduction

Business Debtline provides free advice to self-employed people and small business owners who struggle with debt. The service empowers them to deal with their creditors themselves and put solutions in place to resolve their financial difficulties.

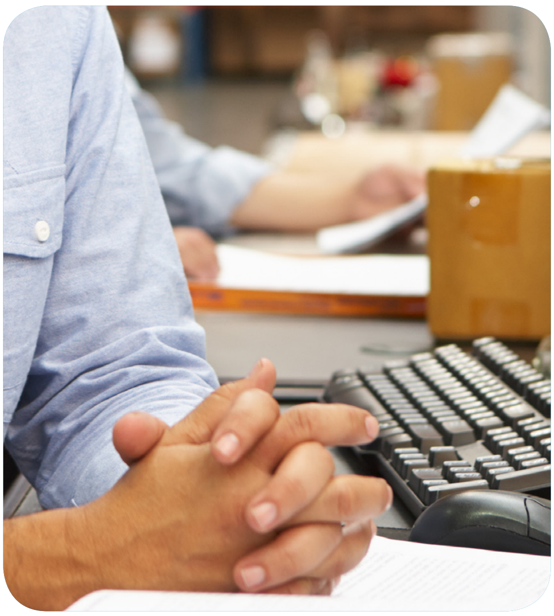
In 2015, we published our *Cost of doing business* report based on the experiences of Business Debtline callers and our expert debt advisers. The report provided insights about the lives of people who are self-employed and small business owners at the struggling end of the spectrum, including their profiles, issues and the challenges they face. It also set out a range of recommendations for government and creditors, including improved access to support and information, further action on late payments and measures to make it easier to separate personal and business finances.

Our new report builds on this work, providing a more in-depth analysis drawn from our comprehensive database of debt information and more detailed surveys of the people we help.

The challenges set out in this report are common for many people who run small businesses. Given the rapid growth in numbers in self-employment in recent years, and the importance of a thriving small business sector to the wider economy, it is paramount that these challenges are given due prominence and successfully addressed.

In this report we tell the stories of the people Business Debtline helps, including details about their socio-economic situation and the sectors of the economy they come from. We set out their key debt problems, explain the reasons why they may fall into debt, as well as why many of them seek debt advice too late — and most importantly set out what, in our experience, are the main challenges struggling businesses face. Alongside this, we explore the existing literature on self-employment to analyse and further understand these issues.

We conclude with a set of recommendations for government, creditors and the advice sector on how to create a more inclusive and supportive business environment that will enable people who are self-employed and small business owners to thrive.



Alan, the courier driver

Alan is in his mid-forties and has owned his own courier business for the last four years.

He lives at his partner's house, who has a mortgage, although he does not own a property.

Alan always wanted to become self-employed as he wanted to be his own boss.

He has a few regular customers, including two who are particularly loyal and regular, and his clients tend to be medium-sized companies as well as private individuals. He is always prompt and does the job well, as trust is vital in building his business.

He currently has a person who helps him from time to time and is looking to grow his business and employ more people.

However, being self-employed does not come without challenges and he has to work harder than friends who are in more stable employment, dealing with unsociable hours, unpredictable demands and irregular income.

Securing work is a constant struggle especially in winter months, when some companies close. He was also a victim of fraud when buying a van for his business, which left him short by a couple of months' income.

The reason he went into debt was due to irregular income. He owed relatively small amounts to banks and HMRC. The advice Alan received from Business Debtline helped him to self-negotiate with his creditors and get additional time to pay off his debts.

His relationship with his creditors has been fine as he now knows what they are looking for in most situations. In his experience, they are generally reasonable as long as he explains his situation in full.

He had previously trained as a banker where he gained some financial and budget completion skills. He is fairly confident with managing his business, using accounting software for his business budget, although he could do better.

Alan did employ an accountant one year after setting up his business to deal with VAT matters as he had little knowledge of this area himself.

Alan has a business bank account for his business, which comes with a fee. However he also uses his personal bank account for business purposes, sometimes transferring money from one account to the other to help with balances. He pays business VAT through his personal account, as this is easier for him and is planning to set his business account up in similar way to completely separate his finances.

Alan does not have current plans for retirement and does not have a pension as his earnings are not enough to enable him to save.

* Name and photo has been changed

2. Methodology

This research comprised both quantitative and qualitative analysis to provide insight about the people we help via Business Debtline. Our analysis has helped us to identify the most important issues that the people we help face and relate these to the wider self-employed and micro-business population. We have achieved this through a combination of analysis of the data that our advisers collect during calls, surveys of the people we have helped and engagement with our Business Debtline advisers. In addition, we have benefited from an analysis of anonymised Business Debtline client data conducted by Experian.

The Business Debtline Customer Relationship Management system provides us with detailed insights about the people we help and contains information on more than 60,000 people that have contacted us since 2016. That insight includes information about the type and size of debts, employment status and types of businesses we help, as well as demographics. We also conducted a more detailed analysis on a sample of clients from March 2018 on the amount of each specific debt they had.[3]

As part of our commitment to quality, the Money Advice Trust has established a number of ways to capture the impact and outcomes for the people we help via Business Debtline. We carry out regular surveys of our clients to provide us with more insight into the impact of our advice. These are sent by email to clients who say at the time of their call that they are willing to be re-contacted for research. These include two regular surveys, the annual impact survey which is conducted 9-15 months following calls to Business Debtline[4] and post-contact surveys which are conducted six weeks after contact.[5] These surveys enable us to measure the impact of our advice. We can also gather useful insights about the people we help, including their particular circumstances and the issues they face.

Finally, we partnered with Experian who carried out an analysis of anonymised Business Debtline client data. Using an anonymised file, Experian matched the home postcodes of Business Debtline callers to the Experian database and appended Mosaic, Financial Strategies Segments and Government Standard Region.[6]

3. The figures are based on a snapshot sample of 332 randomly selected callers to Business Debtline during March 2018.

4. For the purposes of this report we have used the Annual Impact Survey 2017 results.

5. In our Quarterly Surveys, we alter the questions from time to time to allow us to get insights across different matters.

6. The distributions were then compared with the UK Mosaic and Financial Strategy Segments resident population as well as the proportion of the resident population in each region. Indexes were created by comparing the callers' proportions with the base proportions for the country. If the callers exactly matched the country or region they would have a value of 100. Overrepresentation gives indices over 100 and under values below 100. The profiles of business debt callers were also compared with people more likely to have debt problems using the BMRB TGI survey question identifying people "having greatest difficulty coping on their income."

3. Self-employment and small business owners in the UK

According to the Office for National Statistics (ONS),[7] in the period February to April 2018, 75.6% of people aged 16 to 64 were in work, the joint highest employment rate since comparable records began in 1971. For the same period, the unemployment rate was 4.2%, down from 4.6% a year earlier and the joint lowest period since 1975.

This can be attributed, in no small degree, to the significant growth of self-employment in the UK in recent years, particularly in the period following the financial crisis and subsequent recession. According to ONS,[8] the number of self-employed people increased from 3.3 million people in 2001 (12% of the workforce) to 4.8 million in 2017 (15% of the workforce).

Self-employment in the UK, at 15%, is now close to the European average and has been increasing, whereas, measured as a share of total employment, it has continued to decline in many other countries.[9]

According to ONS, since the economic downturn of 2008 and 2009, following continuous economic improvements, the rate of overall business births has exceeded the rate of business deaths in the UK. Since 2011, the gap in the UK business birth and death rates had been widening until the beginning of 2016. Between 2015 and 2016 the gap shrunk slightly, but the overall trend toward a growth in businesses continued. The number of UK business births increased from 383,000 to 414,000, a birth rate of 14.6%. The number of UK business deaths increased from 283,000 to 328,000 over the same period, a death rate of 11.6% (compared with a rate of 10.5% the year before).[10]

Between March 2016 and March 2017, there was also an increase of 7.4% in corporate businesses, while there was a reduction of 2.6% in the number of sole proprietors and partnerships (often people who are self-employed). Corporate businesses (companies and public corporations) represented 70.7% of total businesses, up 1.9 percentage points from 68.8% in 2016.

Of the corporate business figure, 47.1% is made up of single employee limited companies, which have increased by 72,000 between 2016 and 2017. Single employee limited companies have always been prevalent in the construction industry but recent years have also seen a marked increase in the transport and storage, health and education sectors. Sole proprietors represented 17.5% of total businesses, down 1.2 percentage points from 18.7% in 2016. Partnerships represented 8.1% of total businesses, down 0.7 percentage points from 8.8% in 2016.[11]

7. Office for National Statistics, Statistical Bulletin: UK labour market. Estimated employment, unemployment, economic inactivity and other employment-related statistics for the UK, June 2018
8. Office for National Statistics, Article: Trends in self-employment in the UK. Analysing the characteristics, income and wealth of the self-employed, February 2018
9. Chartered Institute of Personnel and Development, A picture of self-employment in the UK, January 2018
10. Office for National Statistics, Statistical bulletin: Business demography, UK: 2016 – Change in the number of UK businesses broken down by sector of the economy, November 2017
11. Office for National Statistics, Statistical bulletin: UK business activity, size and location 2017 – UK businesses broken down by legal status, industry, region, employment and turnover size bands, October 2017

Change in self-employment in the UK (with and without employees)

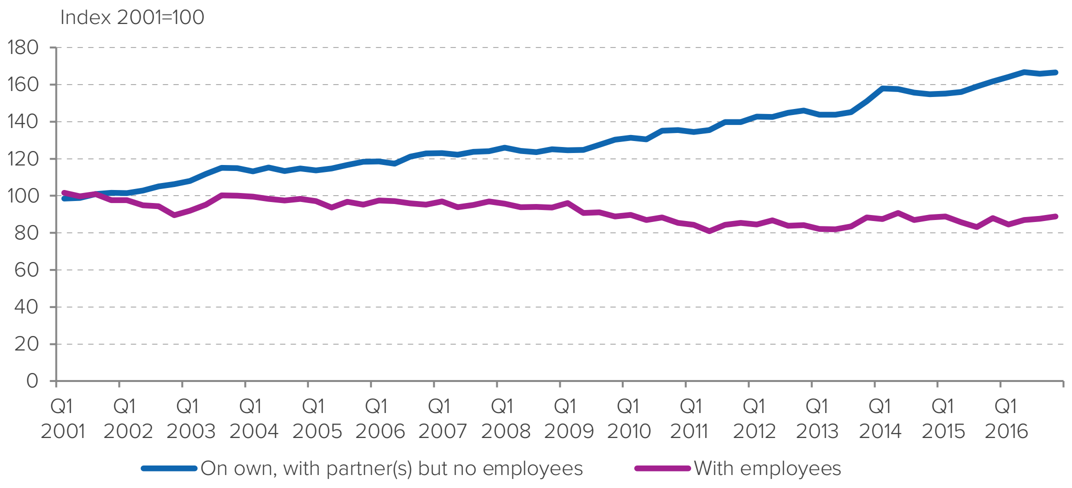


Figure 3.1

Source:
Office for National Statistics, Labour Force Survey

Figure 3.2

Source:
Business Debtline

Types of small business owner in the UK

Sole trader	An individual that works for themself is classed as a sole trader. Sole traders may also have people working for them. Common examples of sole traders include: builders, plumbers, electricians, painters and decorators, taxi drivers and window cleaners. A sole trader can keep all of their business profits after paying tax on them. Sole traders are personally liable for their business debts. This means that they have to pay these debts out of their own income. If they do not pay, the creditors they owe money to could take further action against them personally.
Partnership	A partnership firm is a business where two or more people carry on business to try and make a profit. A partnership must have at least two partners. Partnerships are usually set up on the basis of a partnership agreement signed by all of the partners. This contains information such as how the profits and losses should be shared; and the circumstances in which the partnership will be dissolved (closed). Partners are 'jointly and severally liable' for the firm's debts (except partners' own tax). This means that the firm's creditors can take action against any partner for the full amount of debt. Also, they can take action against more than one partner at the same time. This applies even if there is a partnership agreement that says otherwise. A partnership in Scotland is legally separate from its partners. However, if the partnership cannot pay, then the partners can be chased for the debts.
Limited liability partnership	A limited liability partnership (LLP) is a separate legal entity from its members. It is similar to a limited company, but also shares some features of a partnership. LLPs must be registered with Companies House and have at least two members. There are also 'designated members' who have extra legal responsibilities, such as keeping accounting records. Members are not usually personally liable for the LLP's debts, unless they have given a personal guarantee or committed a member's offence.
Private limited company	A limited company is legally separate from its directors and shareholders. It usually has 'limited' or 'ltd' in its name and is registered with Companies House. In a small limited company, the directors are often the shareholders. Usually, a private limited company director is not personally liable for paying the company's debts, unless they have given a personal guarantee or committed a director's offence. This means that if the limited company does not pay its debts and a creditor takes court action, only the company assets are at risk.

3.1 The drivers behind self-employment

There are a wide range of reasons why people become self-employed. Some people choose to become self-employed as they feel that working for themselves would be a more attractive lifestyle. Some people are pushed to self-employment because of economic circumstance.[12] Technological and regulatory changes have also reduced the costs and increased the ease of becoming self-employed.[13]

A 2018 Demos study suggests that most self-employed people have made this choice consciously rather than being forced by other factors such as economic circumstances, although this will have been the driver for some people.[14]

People who are self-employed are more likely than employees to report high levels of satisfaction with their work, its variety and the opportunities their work affords.[15] Similar findings have been reported by the 2016 Department for Business, Innovation and Skills (BIS) Enterprise Analysis – of those surveyed the most common reason that contributed to taking up self-employment was it being normal for the type of work concerned, and people identifying a business opportunity.[16] The majority considered self-employment to be a positive choice compared with being an employee, with the most commonly reported benefits being flexibility, independence, and job satisfaction.

In the 2015 European Working Conditions Survey, 77% of the UK respondents who were self-employed said that being self-employed was their personal preference, compared with an average of 59% across Europe.[17]

3.2 Demographics

Most people who are self-employed are men, but an increasing proportion of the self-employed population are women (although women are less likely than men to want to be self-employed).[18] Female self-employment, both full and part-time, grew between 2001 and 2016. By contrast, the number of female employees – either full or part-time – has been relatively stable.[19]

Self-employed men are slightly less likely to hold higher-level qualifications (Level 3 and 4) than employees, whereas the reverse is true for women. People who are self-employed are much more likely to have completed a trade apprenticeship. Nonetheless, regardless of their skill level, people who are self-employed undertake less training.[20]

A significant proportion of the self-employed workforce is approaching retirement age,[21] with many who are advanced in their careers or looking for a change of pace making an active choice to pursue self-employment. The lowest proportion of the UK's self-employed population unsurprisingly falls into the 16 to 29 age category, with this age group accounting for just 12% of all people in self-employment.[22]

3.3 Trading status

According to ONS, the increase in self-employment between 2001 and 2016 was driven by those who worked on their own or with a business partner, but had no employees. This group accounted for 4.0 million workers in 2016, compared with 2.4 million in 2001; while the number of those who reported themselves as having employees actually fell over the same period.[23]

Most people who are self-employed are sole traders. However, the UK's freelance workforce has been one of the key drivers behind the rapid rise in self-employment.[24] In some industries, such as the arts, media and similar creative occupations, freelancing is a common way of working.

Sometimes, it is not easy to distinguish the employment status of an individual. For example, agency workers or contractors may describe themselves as self-employed even though they might fit within the working practices of the organisation they are working for. In addition, there are cases where people are effectively forced into self-employment by larger firms for taxation and similar purposes. Given that the number of people who are self-employed has been increasing in the UK, it is essential to have a clear definition and a policy framework for this.

12. Chartered Institute of Personnel and Development, A picture of self-employment in the UK, January 2018
13. Social Market Foundation, Tough gig: Tackling low paid self-employment in London and the UK, October 2016
14. Demos, Britain's self-employed millions urgently need a new deal, 2018
15. Chartered Institute of Personnel and Development, A picture of self-employment in the UK, January 2018
16. Department for Business, Innovation & Skills, Understanding self-employment, 2016
17. Chartered Institute of Personnel and Development, A picture of self-employment in the UK, January 2018
18. Ibid.
19. Office for National Statistics, Article: Trends in self-employment in the UK. Analysing the characteristics, income and wealth of the self-employed, February 2018
20. Chartered Institute of Personnel and Development, A picture of self-employment in the UK, January 2018
21. The Association of Independent Professionals and the Self Employed, The rise of self-employment in modern Economy, March 2018
22. Ibid.
23. Office for National Statistics, Article: Trends in self-employment in the UK. Analysing the characteristics, income and wealth of the self-employed, February 2018
24. The Association of Independent Professionals and the Self Employed, The rise of self-employment in modern Economy, March 2018

In recent years, the concept of the 'gig' economy has gained prominence, which offers the opportunity to the self-employed to access work and clients through a digital platform, usually in the form of a mobile app or website. The number of people who are self-employed and use the gig economy to access work has been increasing, particularly in sectors such as transport and hospitality. However, it is still difficult to quantify the size, scale and impact of this gig economy.[25]

According to a recent survey by the Royal Society for the Encouragement of Arts, Manufactures and Commerce in collaboration with Ipsos MORI, there are currently 1.1 million gig workers in Great Britain. Over half of them (59%) are found in professional, creative, or administrative services. A significant number (33%) provide skilled manual services, such as plumbing, electrical maintenance, or carpentry and only a minority (16%) are found in driving and delivery services.[26]

The Department for Business, Energy and Industrial Strategy has estimated that 2.8 million people have worked in the gig economy in the last 12 months – with gig economy workers being more likely to be younger and living in urban centres, particularly London.[27]

Even though the gig economy offers access to work it does not come without shortcomings. The fact that people in the platform economy are paid per job (gig) does not offer the protection for example of the hourly minimum wage. Competition pushes down 'gig' prices without any protection for the people who work in the platform economy. Furthermore, despite the flexibility it offers it does not offer any predictable working hour patterns, for example the gigs might be hours apart and at inconvenient times, which can make it difficult for people to plan their days. The gig economy is at its infancy so more needs to be done to make sure it works both for the benefit of the people who chose to access work through that route and the wider economy.

3.4 Incomes

Perhaps unsurprisingly, people who are self-employed are more likely to be low-paid compared to employees. Obvious reasons include that many of the people who are self-employed are in low-paid sectors (and they lack training and employees, which affects their productivity).[28]

Self-employed people do not, of course, receive the same minimum wage protection that employees do. Their income is more likely to be around £240 a week, which is much lower than that for employees which is more likely to be around £400 a week.[29]

Research[30] suggests that some challenges reported by people who are self-employed include not getting paid for taking time off, through sickness or holidays, and not being able to save as much as they would like. Finding and securing new customers and work was also reported as a challenge that people who are self-employed might face, along with not having regular or predictable income from month to month. However, most of the people who said they had experienced such challenges said that they still felt they were better off in self-employment.

Despite these challenges, people who are self-employed tend to be more optimistic about their prospects than their counterparts in paid employment. This optimism might lead to some of them having a more positive view of their earnings prospects, even when they earn less by being self-employed.[31]

25. Office for National Statistics, Article: The feasibility of measuring the sharing economy: progress update, November 2017
26. The Royal Society for the encouragement of Arts, Manufactures and Commerce, Good Gigs: A fairer future for the UK's gig economy, April 2017
27. Department for Business, Energy and Industrial Strategy, The characteristics of individuals in the gig economy, February 2018
28. Resolution Foundation, A tough gig? The nature of self-employment in 21st Century Britain and policy implications, February 2017
29. Office for National Statistics, Article: Trends in self-employment in the UK. Analysing the characteristics, income and wealth of the self-employed, February 2018
30. Department for Business, Innovation & Skills, Understanding self-employment, 2016
31. Chartered Institute of Personnel and Development, A picture of self-employment in the UK, January 2018

Maria, the professional musician

Maria is in her early forties and is a professional musician.

Music has always been her passion. After being in full-time employment for several years, she left her job to pursue her dream of becoming a professional musician.

Maria received an inheritance from her parents which she used to cover the cost of a Master's degree in music. While studying, she started work as a freelance musician, playing occasionally in concerts.

After finishing her studies, Maria wanted to establish herself in the music industry. During this time her income was low and irregular. She thought that the banks would not lend her money because of her lack of assets and financial situation, and relied on more expensive credit to cover costs.

Maria was already behind with payments when she called Business Debtline. The advice she received helped her to create a personal budget and a business budget. She also applied for an individual voluntary arrangement (IVA) and is now repaying her creditors with her outstanding debt reducing.

Since the beginning of her career Maria has managed her finances herself. If she had difficulties, she knew she could seek advice from the Musicians' Union of which she is a member.

She uses a personal bank account for everything but said that if she had received advice before becoming self-employed she would have opened a separate account for her business finances.

Since becoming self-employed Maria experienced some issues with late payments. About 20% of her payments from concerts arrive one to two months late, although this is not uncommon in the music industry. She usually uses credit to bridge the gap between payments. Maria tries to build good personal relationships and works with people she trusts as much as possible to reduce the risk of late payments.

As incomes in the creative sector can be irregular Maria tries to get additional income streams including applying for funding for projects and through teaching.

She recently made her first steps into the 'gig' economy, signing up to a platform to offer creative lessons to people. The platform brings together the student and the teacher taking a percentage of the overall fee.

Maria does not have a savings or pension pot and is not planning to retire. She is keen to start saving and a more secure, regular income would help with that.

Maria did not report a bad experience with her creditors although she found creditors phoning her stressful.

* Name and photo has been changed

4. The people we help

In 2017, Business Debtline helped 29,200 people on the phone. We helped a further 7,100 people via webchat and there were 167,300 visits to the Business Debtline website during the year.

4.1 Demographics

Nearly two thirds of the people we help through Business Debtline are men (64% in 2017).[32]

The largest proportion of the people we help are aged between 36 and 50 years old (43% in 2017). The lowest proportion comes from the 18 to 25 (4%) and over 65 age groups (4%).[33]

Business Debtline clients tend to be married (39%) or living with a partner (17%). There is also a significant proportion of Business Debtline clients that are single (32%).[34]

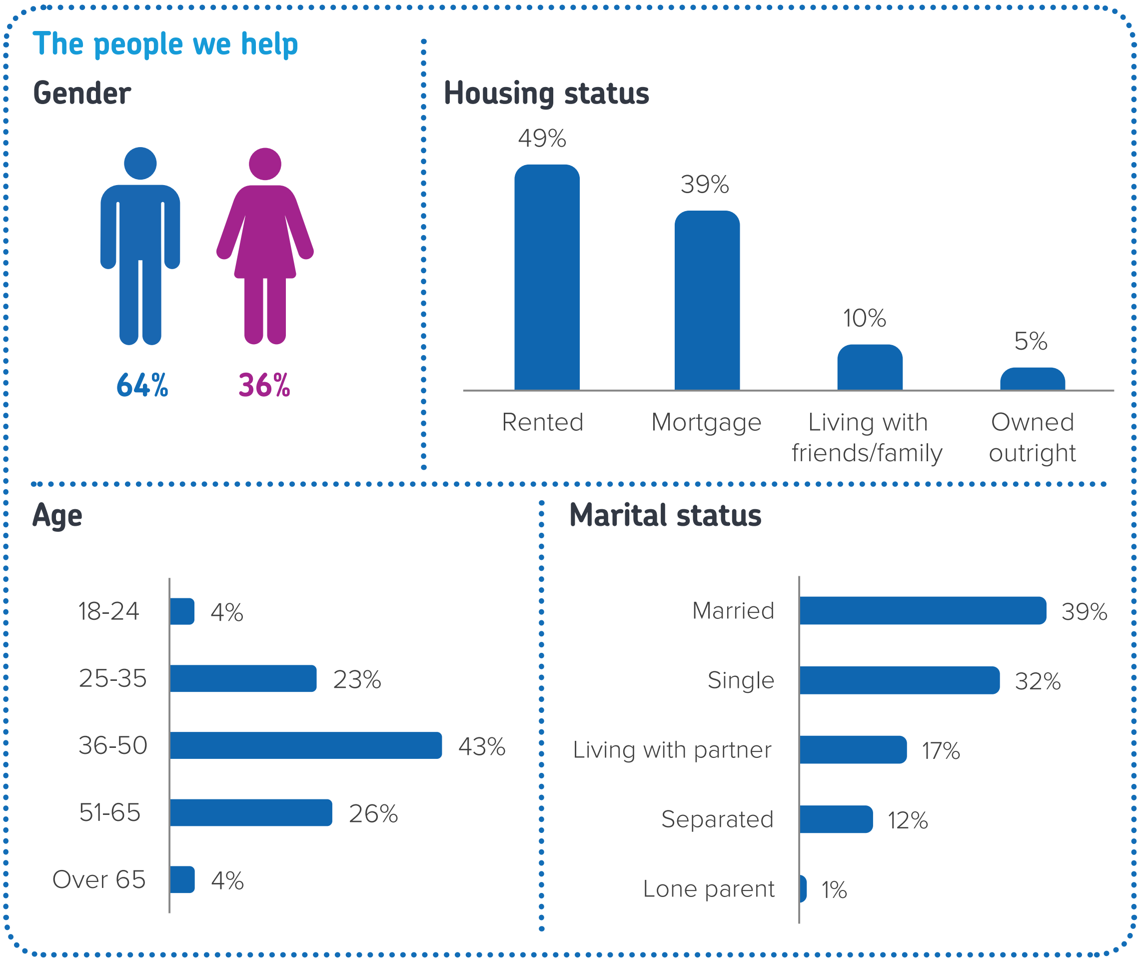
Almost half of the people we help live in rented accommodation (49% in 2017). There is also a significant proportion of clients, who live in their own property with a mortgage (39% in 2017).[35] The rest live with family or friends (10%) and there is also a small proportion of clients (5%), who own their property outright.

Figure 4.1

Source:
Business Debtline data

Note: sum of percentages exceeds 100 due to multiple choice question

Note: percentages shown do not add up to 100 due to rounding



32. Customer Relationship Management system, Business Debtline, 2017

33. Ibid.

34. Ibid.

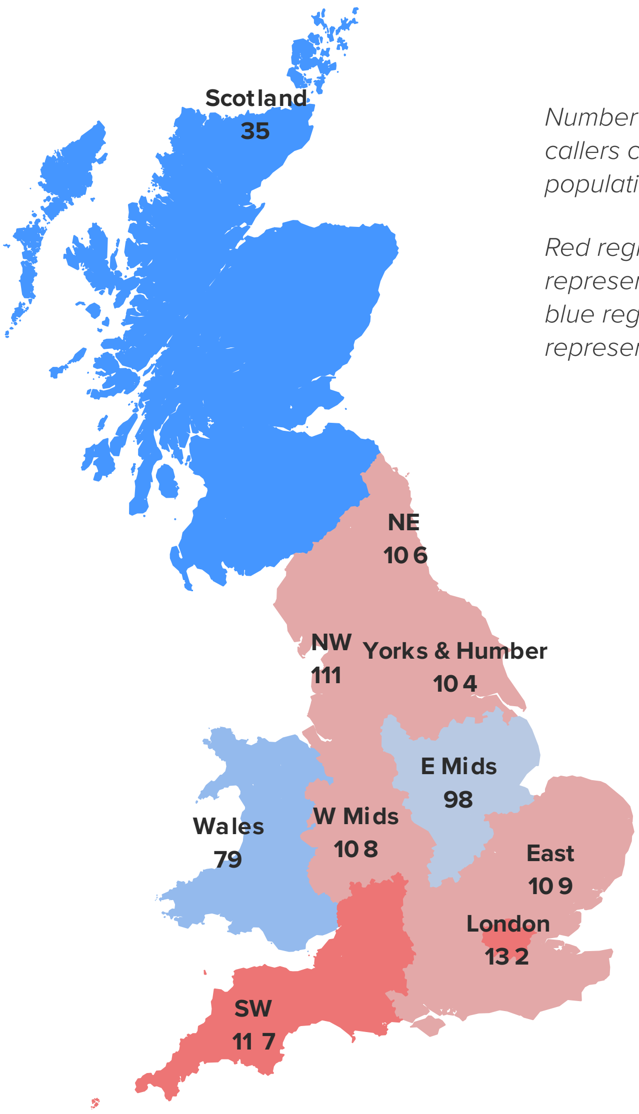
35. Ibid.

Using Experian's Financial Strategy Segments tool we have gathered further insights into Business Debtline clients' profiles, including demographics, financial position and financial behaviour.

Callers tend to be in their mid-forties, are more likely to be men and they are likely to be married.

They are more likely to live in London. London has a strong pattern of business start-ups, offers great opportunities but also results in more small businesses hitting issues. Business Debtline clients are less likely to live in Scotland, Wales and the East Midlands and more likely to live in London and the South West when compared to the population of each region.

Comparison of Business Debtline demand with resident population



Number of Business Debtline callers compared to resident population – indexed to 100.

Red regions are over represented, while blue regions are under represented.

Figure 4.2

Source:
Experian analysis of Business Debtline data

The chart below shows the distribution of Business Debtline clients across Experian's distinct household groups. An index above 100 means that Business Debtline clients are overrepresented in that group, while an index below 100 means that they are underrepresented.

Business Debtline callers are more likely to be overrepresented in one of the following groups:[36]

- Family pressures
- Single earners
- Growth phase
- Deal seekers
- Career experience

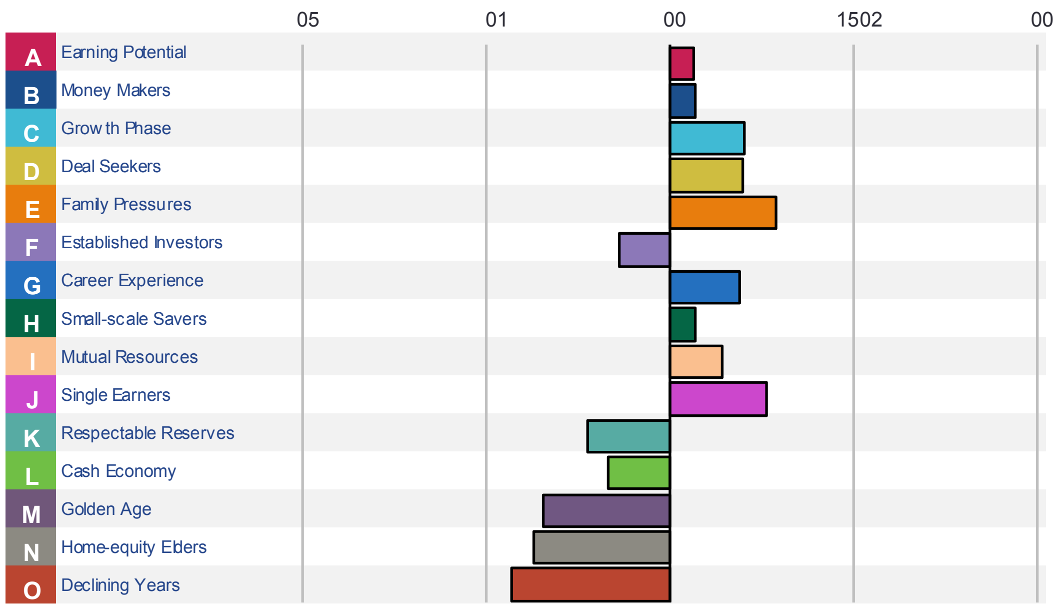
All these five household groups represent relatively younger age groups (thirties and forties), often with children. They tend to have limited resilience, in terms of savings and pension provisions and they tend to use credit.

Business Debtline callers are underrepresented in declining years, home-equity elders and golden age household groups, all of which represent elderly people and pensioners.

Figure 4.3

Source: Experian analysis of Business Debtline data

Experian analysis of Business Debtline data



36. Experian, Financial Strategy Segments (FSS 4), Data Profile

Family pressures

Figure 4.4

Source:
Experian, Financial Strategy Segments

This group consists of very low income families, or lone parents. They are younger people, in their twenties and thirties, who have low income, often experience unemployment and they receive benefits. Their income is often insufficient for their needs, which makes them more prone to turning to a range of credit alternatives. They have very low or no financial resilience (savings and pension provisions) and often have a deficit budget. Some may have a credit card (possibly one designed for those with poor credit record), but they also use catalogue credit, home collected loans and overdrafts. Those that work are likely to be in sales, services and distribution at a semi-skilled or unskilled level.

E

- Low income families
- Unemployed
- Very limited pension or retirement provisions
- Very limited savings and investment
- Low affluence
- Receive a number of benefits

Single earners

Figure 4.5

Source:
Experian, Financial Strategy Segments

This group consists primarily of mature singles, in their thirties and forties, who can be lone parents. They tend to work in intermediate and lower-level jobs. Their financial situation is not well established, they have low levels of income and limited savings and pension provisions. What they are looking for is convenience. The live in shared, conveniently located accommodation, close to transport and stores. They do not have good financial skills, and they often show distrust to financial services (banks, building societies). When they need credit they use unsecured personal loans and short term credit, and if they happen to have a credit card it usually carries a balance from month to month.

J

- Mature singles/homesharers
- Live in purpose built flats
- Limited savings
- Very limited retirement provisions
- Concern that minimum wage is too low
- Variety of debt sources

Growth phase

Figure 4.6

Source:
Experian, Financial Strategy Segments

These are households with relatively good incomes but very high living costs. They have a mortgage and often childcare costs, which can significantly stretch their budgets. They tend to work in professional, technical and administrative jobs in both the private and public sectors. They use online banking apps to manage their finances. They usually do not have big savings; however they are likely to have pension provision – primarily via employer. They tend to have a credit card which usually carries balance from month to month. They may also have unsecured personal loans and car finance.

C

- Families with children
- Receive child benefit
- Prefer repayment mortgages
- Limited savings and investment
- Utilities and finance switchers
- Use mobile banking apps

Figure 4.7

Source:
Experian, Financial Strategy Segments

Deal seekers

Deal seekers are families who earn below-average salaries and who often receive benefits. Many are under forty and are married or cohabiting and have children. As they live in tight budgets they often need credit. They use credit cards, personal loans (secured and unsecured) and overdrafts. However they seek to use their resources efficiently, for example by taking advantage of various forms of credit and money-saving deals. They might also have limited savings and a small pension provision – primarily through their employer. They tend to work in sales, service, skilled or skilled-manual jobs and other lower-level occupations.

D

- Mature families with children
- Live in semi-detached or terraced homes
- Keen switchers for insurance
- Receive child benefit
- Limited savings and investments
- Variety of debt sources

Figure 4.8

Source:
Experian, Financial Strategy Segments

Career experience

People in this group are often in their forties and fifties, are less likely to be married, they do not have dependents and they live alone. They usually have above average incomes, a mortgage which they are towards paying off. They are increasing their savings and they tend to have a growing pension fund. Some might also have investments such as shares or a second property. They use online banking. They have several credit cards and possibly car finance. They are well-educated and have above-average jobs in professional, middle-managerial and technical roles.

G

- Middle aged singles
- Have sizeable pension funds
- Broad range of savings products
- Invest in stocks and shares
- Average incomes
- Mortgage is biggest debt

4.2 Top five trades

The majority of Business Debtline clients are sole traders (65% in 2017), typically without any employees. A significant proportion of our clients are company directors (34%), mainly of private limited companies. There is also a small proportion of clients in a business partnership (5%).[37]

Most clients do not have employees (57%), however, from those who do, they usually employ one to four people (31%). A very small proportion have more than ten employees.[38]

The people we help are engaged in a wide range of trades.

The five most common trades in 2017 were:

- Construction (16%);
- Wholesale, retail and vehicle repair (12%);
- Administration and support services (8%);
- Professional and scientific activities (8%); and
- Accommodation and food services (7%).[39]

Although 'construction' and 'wholesale, retail and vehicle repair' remain the most common trades, since 2015 there has been a small decline in the number of people we help in these categories. In 2015, approximately 20% of the people we helped came from 'construction' and 18% from 'wholesale, retail and vehicle repair' in 2015.[40]

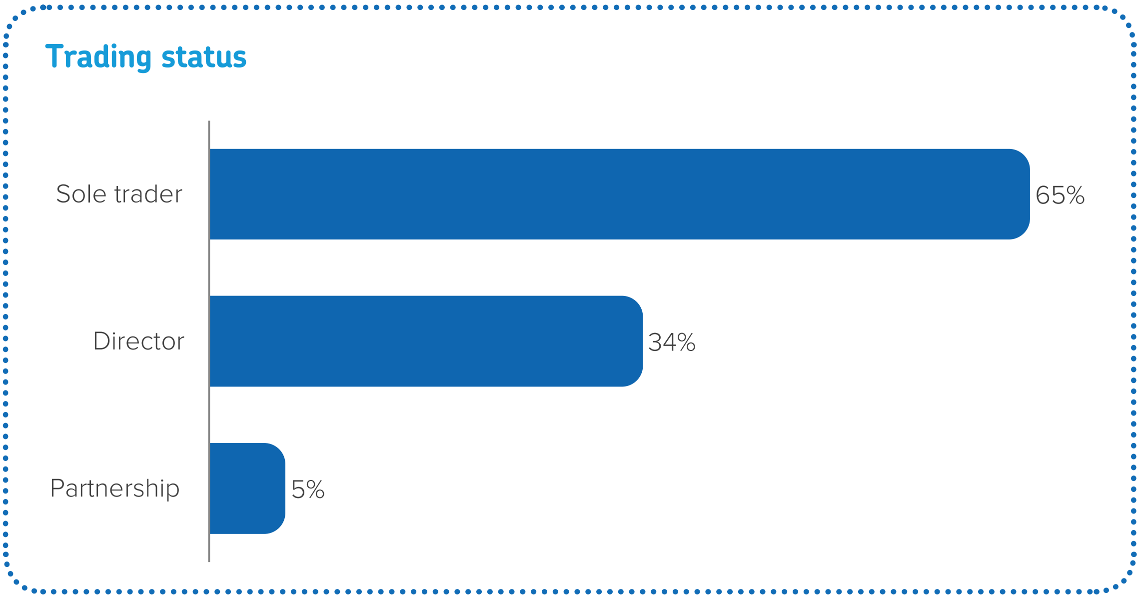


Figure 4.9

Source: Business Debtline data

Note: sum of percentages exceeds 100 due to multiple choice question

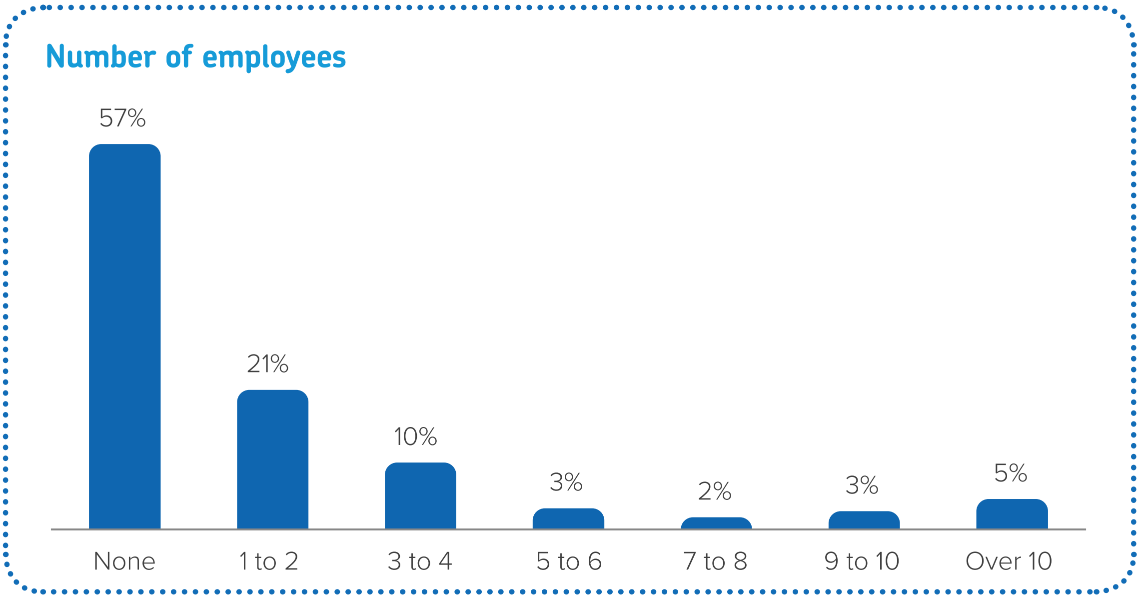


Figure 4.10

Source: Business Debtline survey data

37. Customer Relationship Management system, Business Debtline, 2017
38. Quarterly Survey Q1– Q2 2017, base 222
39. Customer Relationship Management system, Business Debtline, 2017
40. Ibid.

Figure 4.11

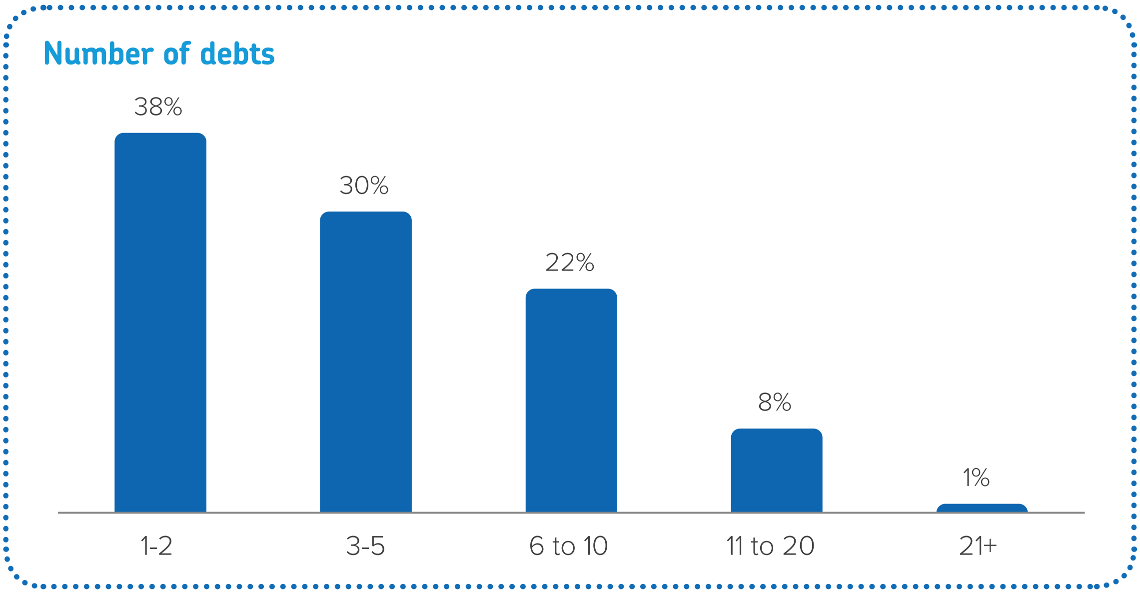
Source:
Business Debtline data

Note: sum of percentages exceeds 100 due to multiple choice question

Figure 4.12

Source:
Business Debtline data

Note: percentages shown do not add up to 100 due to rounding



4.3 Debt problems

The majority of Business Debtline callers in 2017 had up to 10 debts. A small but sizeable minority, 9% of the people we helped, had more than 10 debts.[41]

Business Debtline clients tend to have both business and personal debts. Many of them tend to mix their finances, meaning that they often use personal credit for business purposes. Both personal and business debts are split into priority and non-priority debts.[42]

Half of the people we helped in 2017 had a total debt of over £10,000, with about a quarter exceeding £30,000.[43]

The average priority business debt for Business Debtline clients was £7,737 and the average priority personal debt was £5,077.[44] Non-priority debt levels were significantly higher. The average non-priority business debt was £15,923 and the average personal non-priority debt for Business Debtline callers surveyed stood at £21,445.[45] Looking at the equivalent National Debtline figures, the average priority debt for National Debtline callers was £2,883 and their average non-priority debt was £10,622.[46]

41. Ibid.
42. Priority debts are debts where non-payment can have serious consequences such as customer being disconnected, losing their home, losing essential goods or services or being imprisoned. Examples of priority debts include income and business tax, benefits overpayments, council tax and business rates. Non-priority debts if not paid on time have less serious consequences. Creditors can for example take customer to court or instruct bailiffs to collect owed money. Most common non-priority debts include overdrafts, credit cards and personal loans.
43. Customer Relationship Management system, Business Debtline, 2017
44. The figures are based on a snapshot sample of 332 randomly selected callers to Business Debtline during March 2018
45. Ibid.
46. The figures are based on a snapshot sample of 922 randomly selected callers to National Debtline during March 2018

Figure 4.13

Source:
Business Debtline data

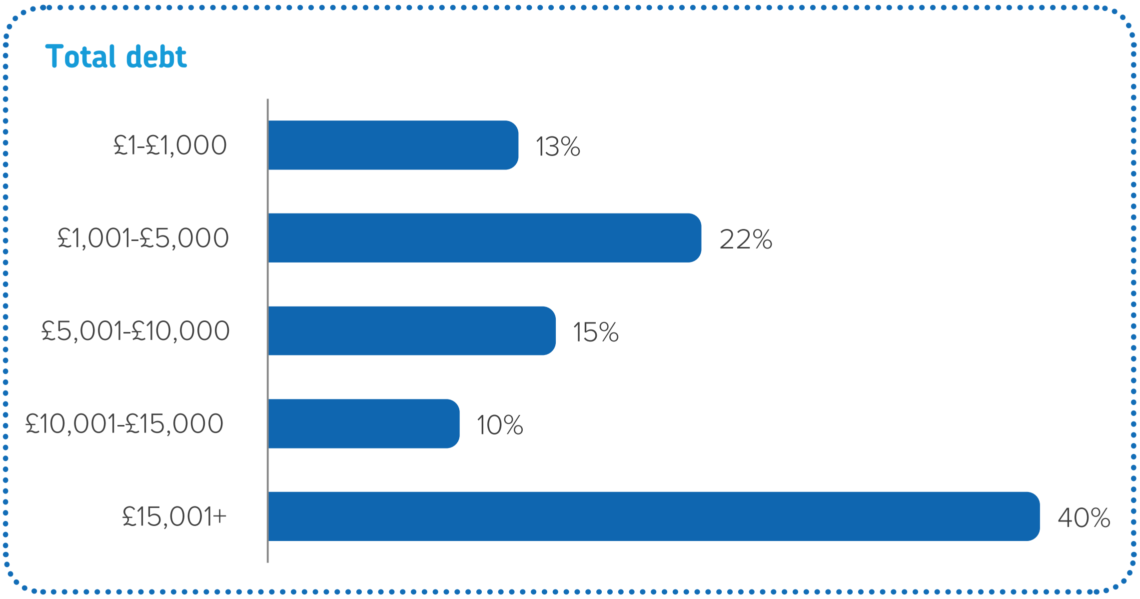
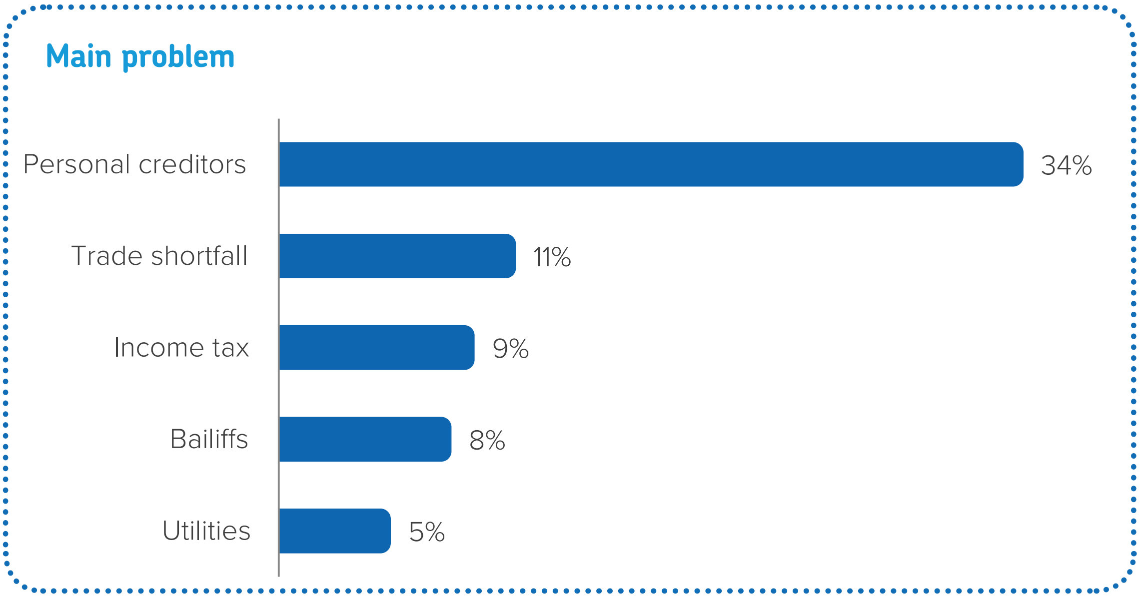


Figure 4.14

Source:
Business Debtline data



One in three people (34%) we helped in 2017 said that they had problems with personal creditors.[47] The average personal credit card debt was £3,983, the average overdraft was £1,468 and the average personal loan was £7,159.[48]

Other problems people reported included a trade shortfall (11%), business income tax (9%), bailiffs (8%) and utility bills (5%).[49] The average business tax debt was £6,356, the average energy debt £1,317, and the average water debt was £891.[50]

Even if people are in surplus (which means that their income exceeds their expenditure) their surplus is usually small. Business Debtline callers' average business surplus was just under £900 per month and their average personal surplus was around £300 per month.[51] For those in deficit their average business deficit was £100 per month and their average personal deficit was about £400.[52]

47. Customer Relationship Management system, Business Debtline, 2017

48. The figures are based on a snapshot sample of 332 randomly selected callers to Business Debtline during March 2018

49. Customer Relationship Management system, Business Debtline, 2017

50. The figures are based on a snapshot sample of 332 randomly selected callers to Business Debtline during March 2018

51. Ibid.

52. Ibid.

Many Business Debtline clients tend to mix their finances, meaning that they often use personal credit for business purposes.

4.4 Reasons for falling into debt

For the people we help, we see that often there can be a combination of reasons that led them to fall into debt. For many callers, debt is not the only problem they face and it might be that their debt problem gets worse because of the other issues that they have to deal with.

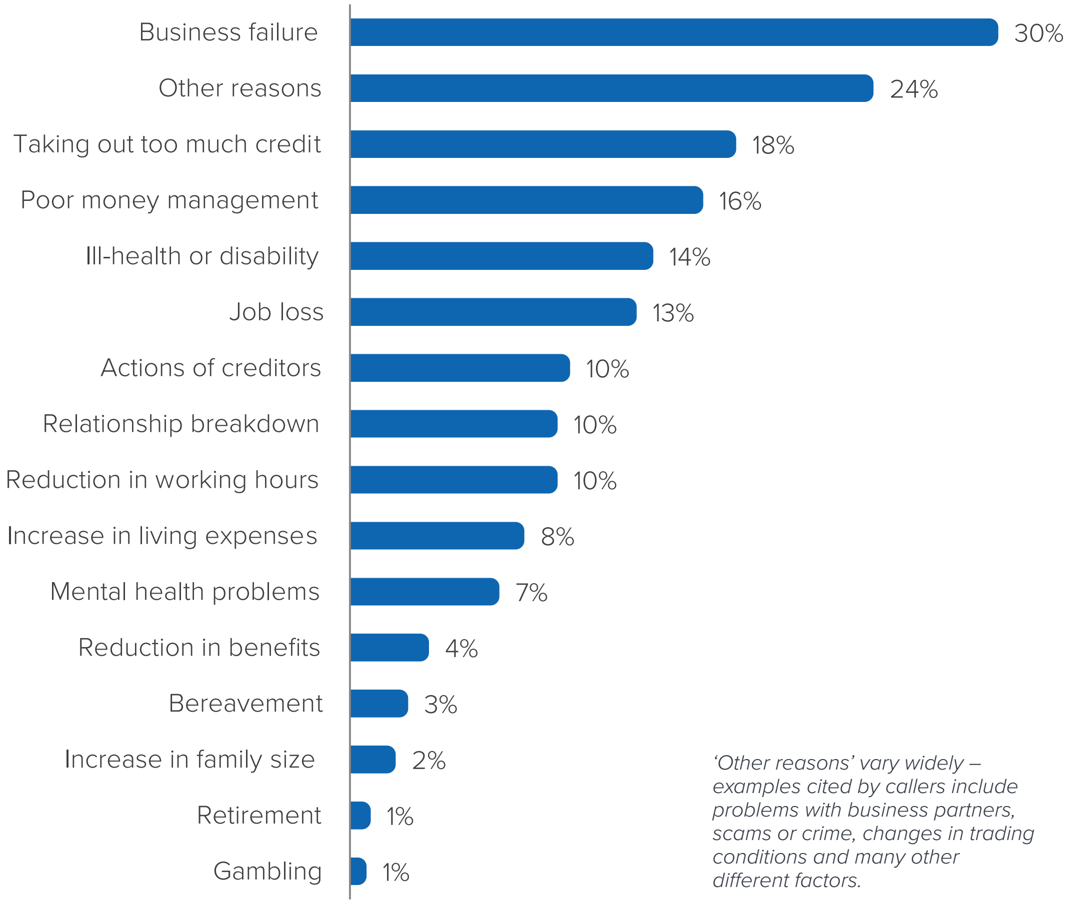
The most common reasons people give for falling into debt are business failure (30%), followed by taking out too much credit (18%), poor money management (16%) and ill-health or disability (14%).[53]

Figure 4.15

Source: Business Debtline survey data

Note: sum of percentages exceeds 100 due to multiple choice question

Main reasons for falling into debt



'Other reasons' vary widely – examples cited by callers include problems with business partners, scams or crime, changes in trading conditions and many other different factors.

53. Quarterly Survey Q1 – Q4 2017, base 519

We asked people to provide more detail about the reasons they fell into debt, to help us get a better understanding of the problems they face.[54]

The responses indicated that some clients tend to take out loans as a result of not having enough revenue in their business. Some said that they had used personal credit in an attempt to save their business, even in cases where the business was already losing money. In addition, according to our advisers, Business Debtline callers may choose to take personal credit to try to fund a limited company, as they have a lack of understanding of the difference between a sole trader and a limited company.

A few other Business Debtline callers said that they felt the failure of their business was the result of bad planning or due to a bad partnership.

Some clients reported that illness or mental health problems, either of their own or of a close family member, made them unable to work and sustain their business. Personal circumstances such as bereavement, divorce or having a baby were also reported as reasons that put pressure on clients and led them into debt.

Quotes from Business Debtline clients surveyed providing reasons for falling into debt

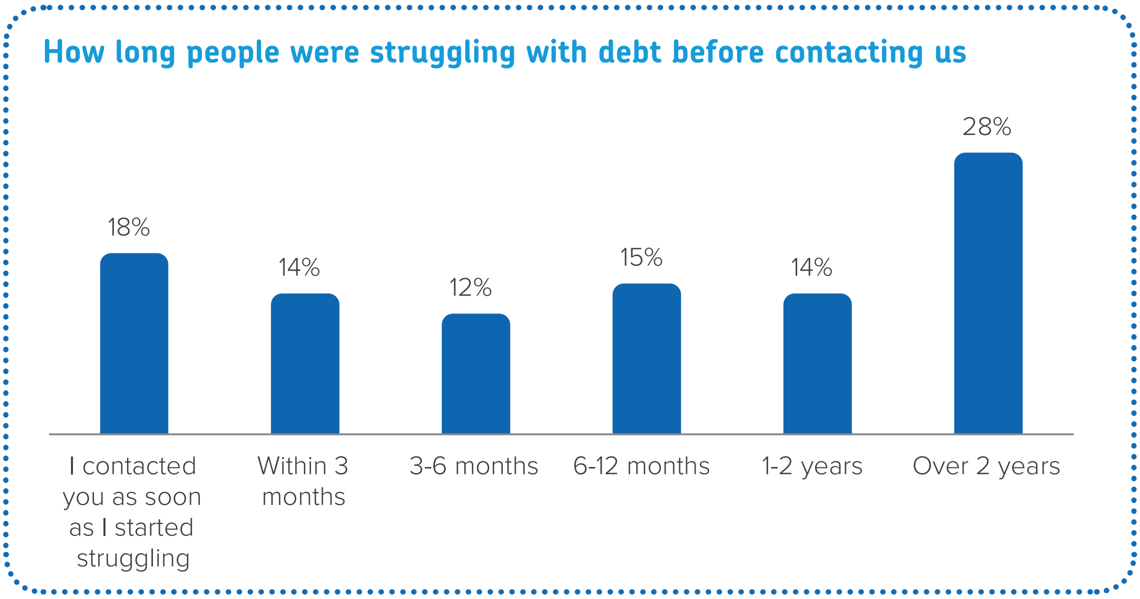
Business failure Partnership split
Unable to find new contract
Bereavement Low income Using credit to live on
Loss of main client Credit crunch
Inability to work due to illness
Using credit to fund business
VAT errors resulting in fines
Drop in sales Cash flow Maternity leave

54. Annual Impact Survey 2017

Figure 4.16

Source: Business Debtline survey data

Note: percentages shown do not add up to 100 due to rounding



4.5 Delays in seeking advice

Often people who are struggling with debt delay seeking advice until they are already behind with their payments. In many cases, they might already struggle for more than one or two years until they ask for help. Over one in four people said that they had already been struggling with debt for more than two years when they called Business Debtline for advice. Only 18% of people contacted Business Debtline as soon as they started struggling.[55]

A debt situation might be easily resolved and not be as difficult as one might think it is. People can go through long periods of stress and worry, without seeking advice, for debt problems that are resolvable. There are multiple reasons why people do not seek advice early when they are struggling with their debts.

Almost half of the surveyed Business Debtline clients (47%) said that the reason they did not seek advice early was because they were too stressed about their debts. Almost half of them (44%) also said that they were worried that they would be judged or criticised and that was why they did not seek advice earlier. The fear of judgement can make people hide their problems. Also, many of the surveyed clients (42%) said that they were worried that family or partner would find out they had debts. A significant proportion (42%) also said that that they did not know where to go for advice. Some of them thought that they could handle the situation themselves so they did not seek advice early (27%).[56]

Almost half of the surveyed Business Debtline clients (47%) said that the reason they did not seek advice early was because they were too stressed about their debts.

55. Quarterly Survey Q1– Q4 2017, base 458

56. Quarterly Survey Q3 – Q4 2017 base 214

Reasons why people do not seek debt advice early

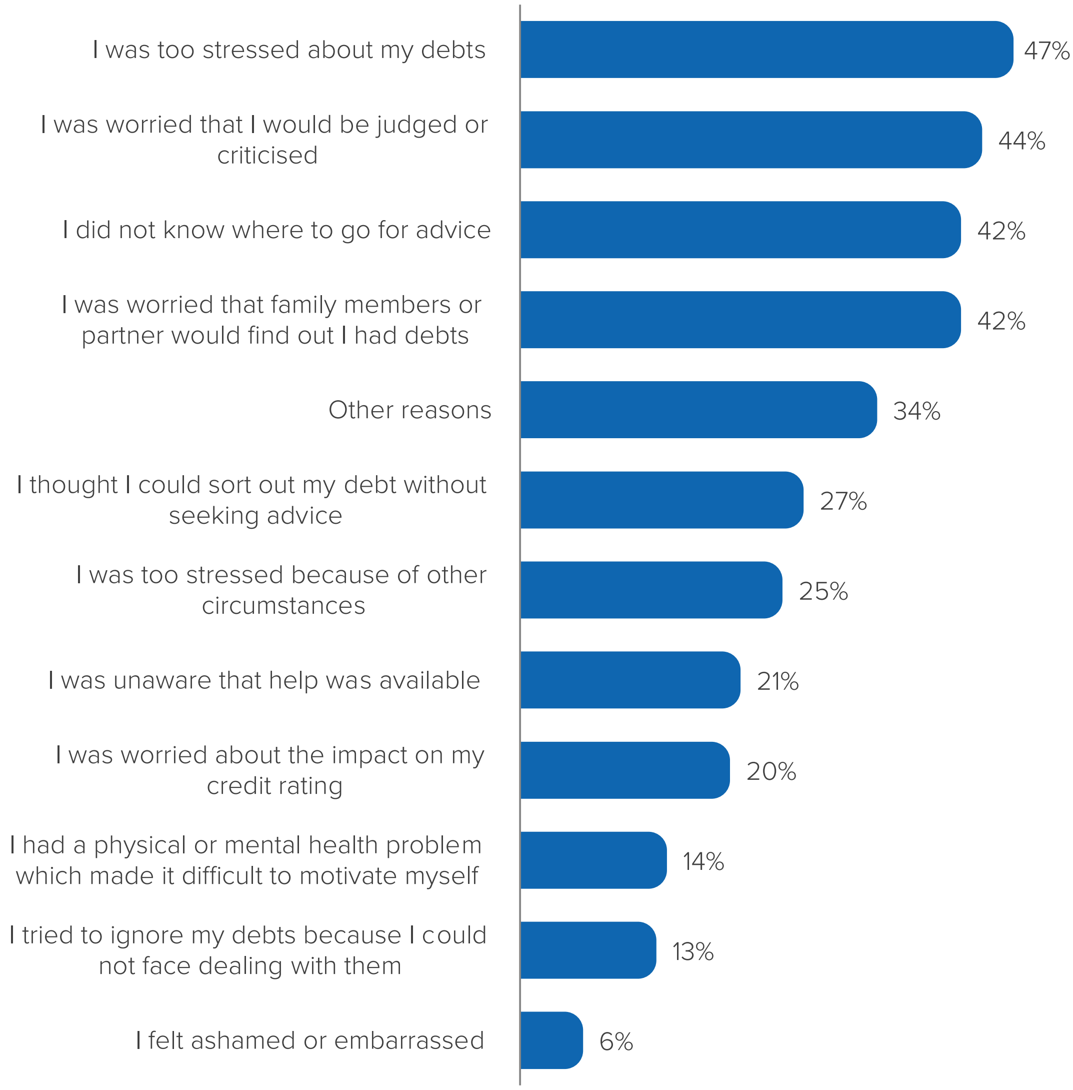


Figure 4.17

Source: Business Debtline survey data

Note: sum of percentages exceeds 100 due to multiple choice question

According to recent research commissioned by the Money Advice Trust on small businesses and energy debts,[57] such businesses were found to have called Business Debtline for advice late in the day, by which time it was more challenging to sort out their energy debt. It was often a lonely, fraught journey to this point, with interviewees trying but failing to negotiate with suppliers, often hampered by poor communication between the two. It was found in the research that accessing independent debt advice earlier may have aided a quicker resolution.

57. Money Advice Trust, Supporting small businesses with energy debt, January 2018

Simon, the property renovator

Simon is in his late fifties and works in property maintenance.

He has been self-employed for nine years. Before becoming self-employed, Simon worked as a maintenance engineer in the pylon industry, travelling large distances each week. After his wife passed away 10 years ago, the distances required to travel were not possible as he had a son of 12 years old to look after on his own.

Simon decided to become self-employed to allow himself more flexibility to look after his young son and to not have to spend as much time travelling. He felt he was prepared for this step based on his experience in his previous role, which included managing large budgets.

For the first few years of being self-employed his earnings were modest but he managed, experiencing good and bad patches at different times.

His financial difficulties started when he was not paid for work he had done as part of a large house renovation. A combination of challenging factors followed soon after, including less work coming through and not receiving payments for many months after completing work. Simon's low earnings, in large part due to fluctuating income, contributed to difficulties in meeting day to day costs.

To pay for his house and utility bills, Simon began to borrow more. He was still working but infrequently, as there were very few jobs coming in.

Late payments were an issue particularly when contractors were involved. There were instances where he would not receive any payment for three months or more. He was also impacted by the struggles the people and companies he was working with were experiencing such as their own late payments and a lack of regular work.

He had to close down his business account as even this monthly cost became too much for him. As his debts grew Simon relied more on credit cards to pay for bills and for daily living expenses.

Overall his experience of creditors was mixed. He had a pre-paid gas meter installed which helped him to manage his gas bills and he was able to set up a payment plan with his electricity company. His water company were however quite aggressive when chasing him for payment.

While there is still more work to do, Simon's situation has improved since contacting Business Debtline.

* Name and photo has been changed

5. Eight key challenges

Using our own insight and from the literature available, we have identified eight key challenges facing our Business Debtline clients and small business owners more broadly.

1. **Low and variable incomes:** low and variable incomes go hand in hand with self-employment for many, with people in self-employment earning less on average than those in employment, although there are some very high earners.

2. **Late payments:** late payments are still commonly experienced by small business owners, with the resulting cash flow problems being a key driver of financial difficulty.

3. **Use of banking products:** it is not uncommon for self-employed people to use a single bank account for managing both their business and household finances. The lack of separation means finances become mixed and cash flow management and personal budgeting can become more difficult.

4. **Business management skills gap:** the lack of basic skills to manage and run one's own business can make success more difficult. People can be passionate about a business idea, or skilled at a particular trade, but they might lack the business skills and knowledge to make their business successful.

5. **Vulnerable circumstances:** small business owners in financial difficulty are often also impacted by a range of vulnerable circumstances that can exacerbate their financial situation, such as mental health, serious illness or bereavement.

6. **Problems with tax and benefits:** completing tax returns can be challenging. Many of the people we help are on a low incomes and claim benefits. It is more complicated for people who are self-employed to claim benefits due to their irregular and uncertain incomes. They can also be unaware they can claim benefits.

7. **Lack of financial resilience:** not having enough money and a lack of understanding of how saving and pension products work can make it difficult for people to save for the future or for retirement.

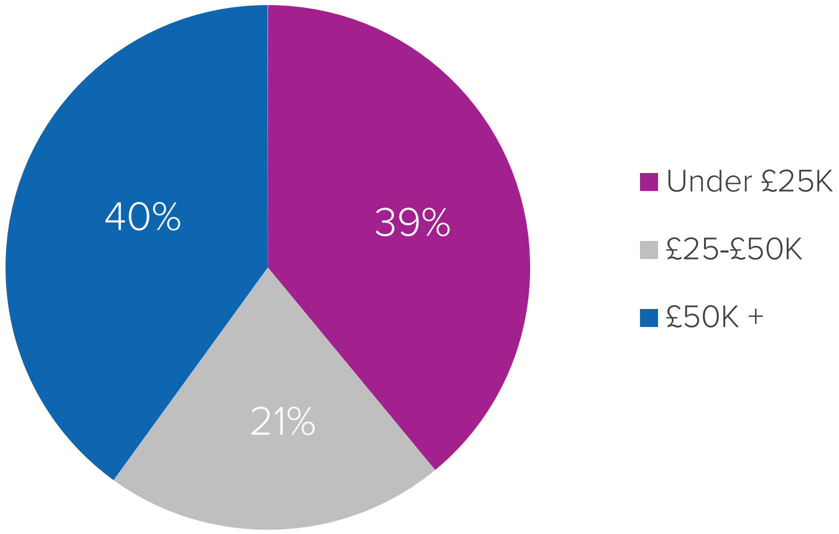
8. **Experience with creditors:** while most feel they are treated fairly, a significant minority of small business owners in financial difficulty report that they feel they are not treated fairly by their creditors.

In the following section, we set out these eight key challenges in detail – together with recommendations for government, creditors and the advice sector to address these issues.

Figure 5.1

Source:
Business Debtline data

Business' gross annual turnover



5.1. Low and variable incomes

There are small business owners both with very high and very low earnings. In addition, new entrants to the small business world are more likely to have cash flow concerns. Some self-employed people seek to top up or smooth their income through an alternative income stream (e.g. a part-time job, or property rental).

Looking at the people we help at Business Debtline, our clients have a wide income range. 60% said that their business' gross annual turnover (total annual business income before tax, business expenses and other deductions such as employee wages, National Insurance etc.) was below £50,000. For a striking 39% their business' gross annual turnover was below £25,000. 40% said that their business' gross annual turnover was over £50,000.[58]

It is usually clients with smaller businesses, in terms of employees, who have lower business gross annual incomes. Those who said that their business' annual gross turnover was over £50,000 were more likely to have three employees or more, while those who said that their business' gross annual turnover was below £25,000 were more likely to be sole traders without employees.

Business Debtline advisers record both 'net business income' as well as 'net additional household income' of the people we help. Net business income includes all income derived from business activity after tax, business expenses and other deductions such as employee wages and National Insurance. Net additional household income includes all other household income net of tax and deductions from earnings at source such as pension contributions and care schemes. It includes all other household income including benefit payments, pension payments and any non-dependent contributions.

The average net business income of Business Debtline clients is £585 per month. Their average net personal income is £1,333 per month.[59]

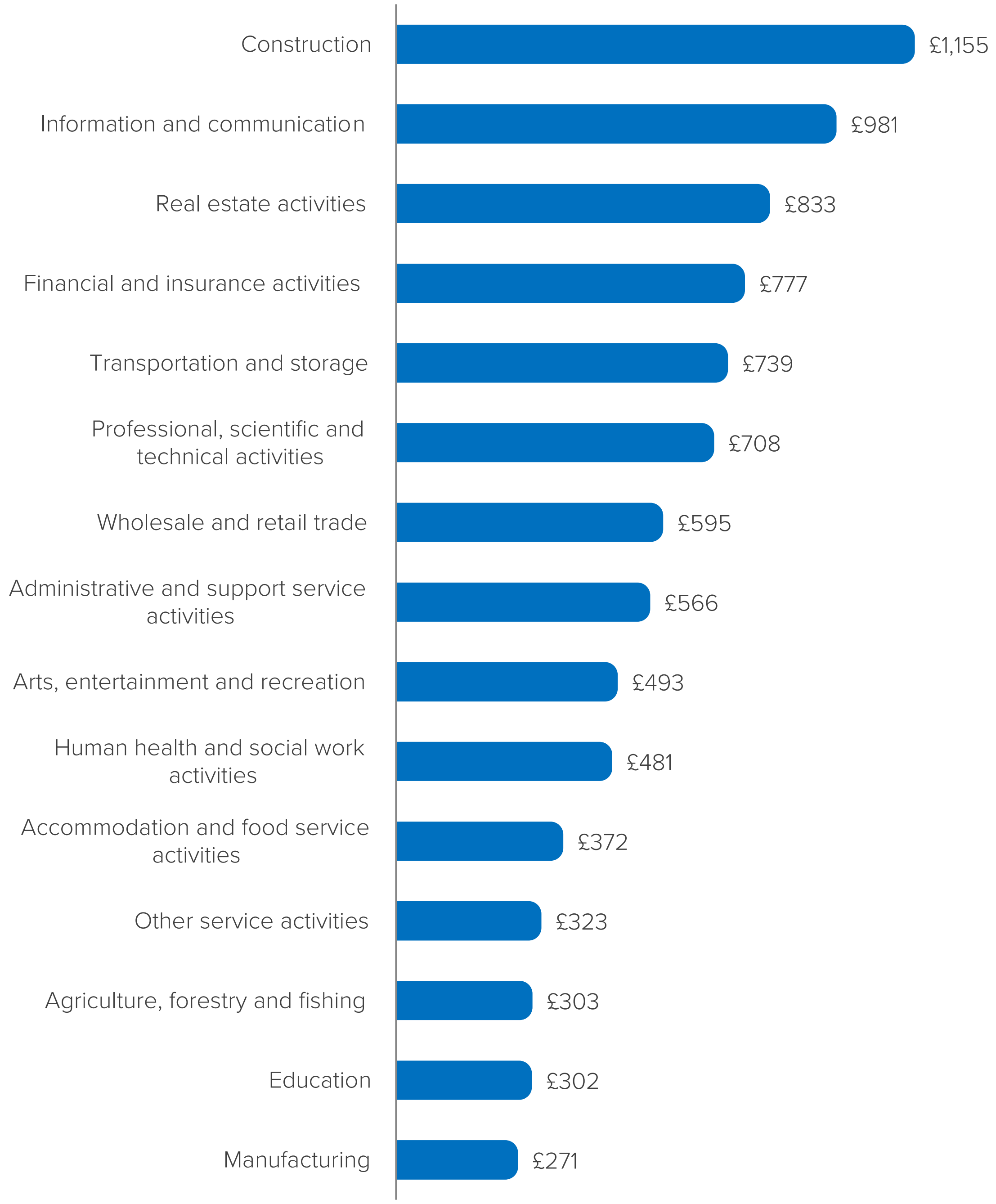
58. Annual Impact Survey 2017, base 175

59. Customer Relationship Management system, Business Debtline, 2017

Figure 5.2

Source:
Business Debtline data

Average net business income by trade per month



The average net business income of Business Debtline clients per month varies across different trades. The top three trades with the highest net monthly business incomes are construction, information and communication and real estate activities, with net average business incomes of £1,155, £981 and £833 respectively.[60]

The trade with the lowest average net business income per month is manufacturing with average net business income of £271 per month. Education and agriculture, forestry and fishing are also amongst the lowest with average net monthly business income of £302 and £303 respectively.[61]

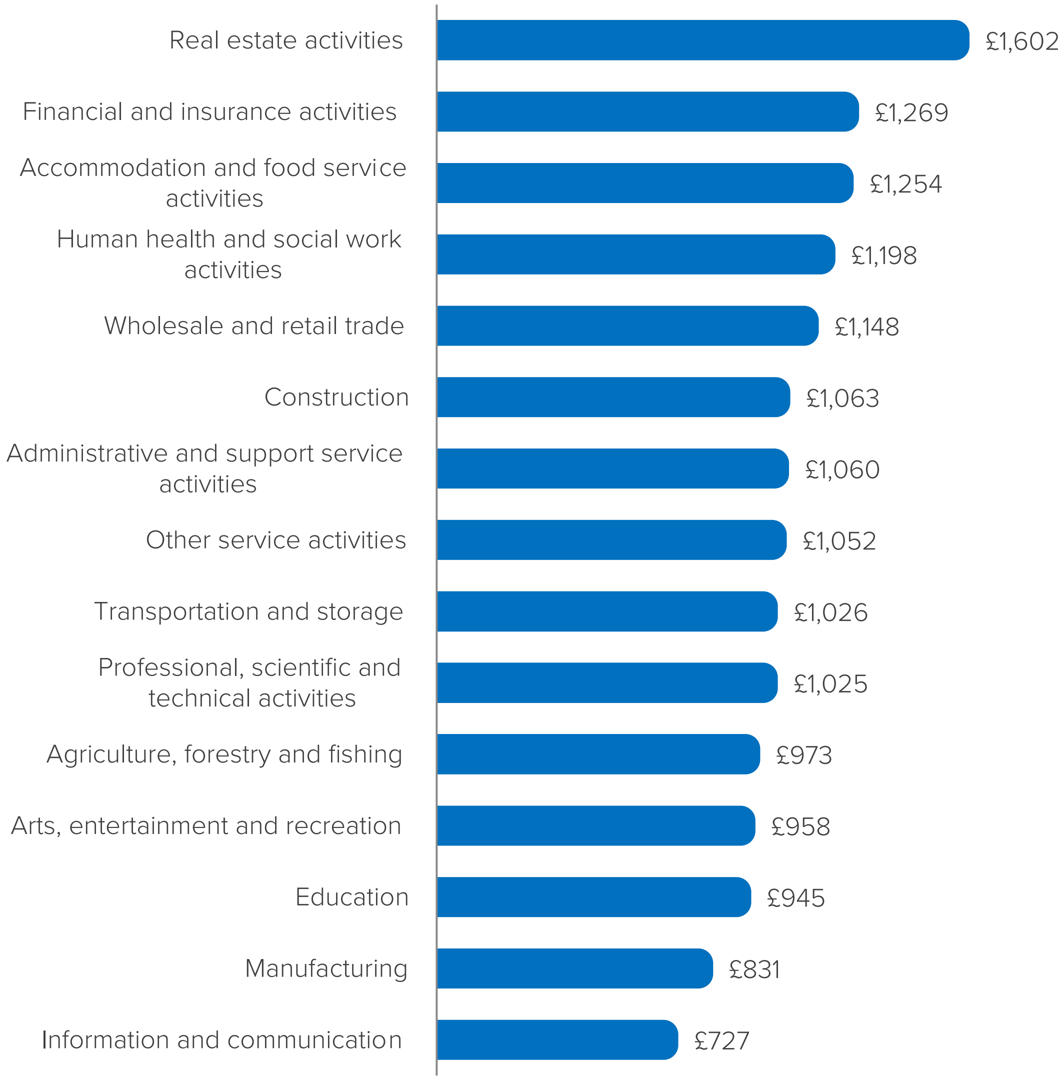
60. Customer Relationship Management system, Business Debtline, 2017

61. Ibid.

Figure 5.3

Source:
Business Debtline data

Average net additional household income per month by trade



The average net additional household income of Business Debtline clients per month also varies across different trades. People in real estate activities, financial and insurance activities and accommodation and food service activities have the highest net additional household incomes per month of £1,602, £1,269 and £1,254 respectively.

A significant proportion of the people we help at Business Debtline also said that they have used personal credit to cover essential household costs in the past two years (31%).[62] This was primarily to pay for food or groceries (23%) and other household essentials (14%), energy (10%) and telephone bills (10%), water rates (8%), income tax payments (7%) and council tax (7%).[63]

62. Annual Impact Survey 2017, base 204

63. Ibid.

Use of personal credit to pay for essential household costs

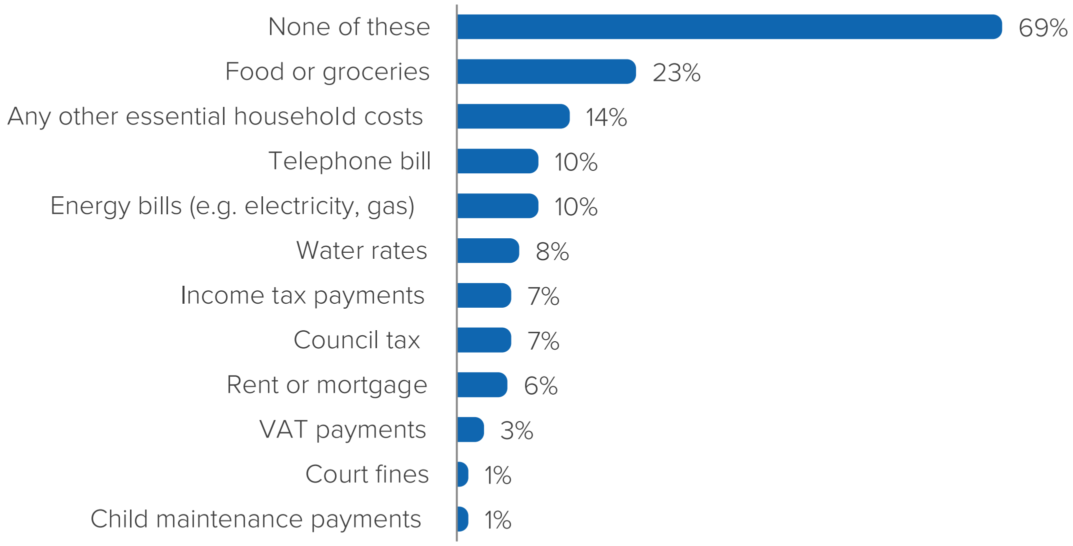


Figure 5.4

Source:
Business Debtline survey data

Note: sum of percentages exceeds 100 due to multiple choice question

Use of personal credit to pay for business costs

Figure 5.5

Source:
Business Debtline survey data

Note: sum of percentages exceeds 100 due to multiple choice question

Six in ten Business Debtline callers surveyed said that they have used personal credit to pay for their business' costs in the past two years (61%).[64] This was primarily to pay for stock and supplier costs (23%) energy (22%), telephone bills (22%) and travel costs (21%).[65]

Our Business Debtline clients' income figures are very similar to those presented in the Financial Conduct Authority's (FCA) Financial Lives Survey 2017, where 42% of respondents who were self-employed said that their business' total annual turnover (or income) before tax and other deductions in the last financial year was less than £25,000.[66] In a recent study by the Institute of Fiscal Studies (IFS),[67] the mean turnover of owner managers was estimated at £130,000, while that of sole traders stood at £25,000. The same study indicated a decline in average profits for both owner managers and sole traders and a large fall in investment in the aftermath of the financial crisis.[68]

According to the Association of Independent Professionals and the Self Employed (IPSE),[69] the UK's freelance workforce has been the most skilled and most economically active group within the self-employed population, contributing almost half (46%) of total self-employed turnover (a £125 billion contribution to the economy). At the same time, they report that approximately 825,300 people, equivalent to 21% of the people who are self-employed, face financial insecurity.[70]

While incomes of people who are self-employed can be difficult to estimate as any calculation or interpretation is complicated by factors such as the lack of separation of personal and business earnings, it is clear from our data and other studies that a worrying proportion of people who are self-employed have lower and variable incomes.

We also know that people who are self-employed are also more likely to be low paid, compared to employees.[71] Many people who are self-employed are in low-paid sectors and lack training, which might also affect their incomes. Self-employment is not, of course, covered by the National Minimum Wage (NMW) or the National Living Wage (NLW).

Many small business owners are challenged by not only low levels of income, but its variability, and the cash flow problems that this can create. Finding and securing new business can be a challenge, particularly in the early days, and often new businesses rely on a single customer. This can lead to a lack of certainty and security of income.

A lack of income during times of ill-health, or for other personal reasons, can also be a challenge. 14% of our callers reported that ill-health was one of the main reasons they fell into debt.[72] This is a big challenge, as people have to take time away from their business and consequently lose income.

Unpredictable or irregular income can make it more difficult for the self-employed to plan ahead, invest in their businesses and save for the future.

64. Quarterly Survey Q1 - Q2 2018, base 260
65. Ibid.
66. Financial Conduct Authority, Financial Lives 2017
67. Institute for Fiscal Studies, Self-employment and entrepreneurship: lessons from tax recons and challenges for policy [conference], June 2018
68. Only 45% of owner managers invested in capital in 2014/15 and only 25% of sole traders in 2015/16, down from 70% and 60% respectively in the year before the financial crisis.
69. The Association of Independent Professionals and the Self Employed, The rise of self-employment in modern Economy, March 2018
70. The Association of Independent Professionals and the Self Employed, Enable the vulnerable self-employed to break free, 2018
71. Office for National Statistics, Article: Trends in self-employment in the UK. Analysing the characteristics, income and wealth of the self-employed, February 2018
72. Quarterly Survey Q1 – Q4 2017, base 519

Recommendations

- The new **Single Financial Guidance Body (SFGB)**, which the government has confirmed will have self-employed people within its remit for debt advice, money guidance and pensions guidance, should develop or commission money guidance content for self-employed people on low incomes and with debt problems. This should complement the Money Advice Service's commissioning strategy for debt advice which targets, among other groups, 'people with variable incomes from employment.'

- **HM Treasury** should ensure that small business debts are included in its planned Breathing Space scheme offering protections from interest, charges and enforcement action for people seeking debt advice. The final design of the scheme should account for the particular needs and circumstances of self-employed people in financial difficulty, in addition to people who are employed and unemployed.

- **'Gig' economy platforms** should provide, or provide links to, financial capability and money guidance interventions, as part of a drive to demonstrate greater responsibility towards to the wellbeing of 'gig' economy workers.

- **The government** should take steps to ensure the development of 'portable benefits platforms' as recommended by the Taylor Review, connecting self-employed people with a range of non-statutory benefits and protections.[73] Such platforms can enable people's access to certain non-statutory benefits and protections. Further, they can remind them to make payments to their pension or take on additional training to progress their careers.

5.2. Late payments

People who are employed usually have certainty about how much and when they will be paid. However, in the case of people who are self-employed, problems with the volatility of their income are often compounded by uncertainty about when the money they have earned will actually be paid, and the costs both in terms of time and physical costs, associated with pursuing unpaid bills. Even if they have regular clients and plenty of work, it is not always certain that they will be paid for these jobs on time. Different customers, including big firms and the public sector, have different policies and practices that affect how and when they handle payments. This can cause uncertainty to people who are self-employed and can significantly impact their cash flow.

Cash flow issues caused by this can impact on their ability to pay their tax, their business debts, and their household expenses including rent or mortgage, energy and water bills. Unfortunately while late payments are not a new problem, it appears to be a particularly difficult one to tackle.

In recent research by IPSE and the Involvement and Participation Association (IPA) 63% of self-employed people surveyed claimed that they had experienced problems with late payments, with the problem being more prevalent within the youngest age groups (18-34 years old).[74] The Federation of Small Businesses' (FSB) recent report on supply chain experiences for smaller firms shows that most small businesses (83%) have to deal with payments that are made after the agreed date (only 17% say they are always paid on time) with late payers including both larger businesses and the public sector.[75]

Nearly half of Business Debtline clients surveyed (45%)[76] said that they had experienced problems with late payments.

73. Department for Business, Energy and Industrial Strategy, Good work: The Taylor review of modern working practices, July 2017

74. The Association of Independent Professionals and the Self Employed and the Involvement and Participation Association, Working well for yourself, July 2018

75. Federation of Small Businesses, Chain reaction: Improving the supply chain experience for smaller firms, June 2018

76. Annual Impact Survey 2017, base 235

Nearly half of Business Debtline clients surveyed (45%) said that they had experienced problems with late payments.

The issue was common for both sole traders and company directors. The respondents provided examples of late payment issues they had experienced. Some said that late payments were common in their trade, such as artists, or interpreters. A few said that late payments were the result of having a 'bad client', with some respondents naming big companies or local authorities owing them money and delaying their payments. A very small number of respondents said that it was because their customers had defaulted or because they had a customer overseas.

From the responses given by Business Debtline callers, it does not appear that late payments were generally the reason for going into debt in the first place – but rather that late payment and the cash flow issues they create can exacerbate debt problems by making it harder to pay bills on time.

Recommendations

- The **government** should enshrine the Prompt Payment Code in law and give more powers to the Small Business Commissioner as recommended by IPSE and the IPA.[77] Prompt Payment Code standards state that payments should be made within 30 days and that no business should be ever been paid more than 60 days after completion of work should become mandatory. The Small Business Commissioner should be empowered to fine persistent late payers.
- The **government** should expand the remit of the Small Business Commissioner to cover disputes involving late payments by local authorities, NHS organisations and other public sector bodies.
- **Creditors** should consider how to provide greater forbearance and flexibility on repayment dates for small businesses that have been affected by late payments. This could include working with the Small Business Commissioner to explore the development of a fair set of criteria for when this could apply, and a mechanism to ensure appropriate application of these measures.

Quotes from Business Debtline clients surveyed about their experience with late payments

"Local authority would pay between one and six months after receipt of invoice."

"Some customers use late payment as a business tool."

"Generally would take three months for my invoices to be paid."

"The bigger the business the bigger the problem."

"Delays in payments of a month cause extreme financial hardship."

77. The Association of Independent Professionals and the Self Employed and the Involvement and Participation Association, Working well for yourself, July 2018

5.3. Use of banking products

Two in three Business Debtline clients (64%) use a personal bank account to manage income, payments and transactions in relation to their business or self-employment.

60% of these clients (or 38% of the total clients surveyed) said that they only use a personal account to manage their business or self-employed finances, while the remaining 40% (26% of the total clients surveyed) said that they use both a personal and a business account to manage their business finances). 28% of those surveyed use only a business account to manage their finances and 5% said that they do not use any accounts. [78]

Of those clients who said that they use a personal account to manage their business finances, 58% (26% of the total clients surveyed) said that it is the same account they use for managing their household finances. Sole traders, in particular, are very likely to use the same personal account they use for their household finances for their business.[79] Since it is not mandatory for sole traders to have a separate account for their business, they are more likely to use a single account for managing both business and household finances. Private limited company directors should have a dedicated bank account for their business as their business is a separate legal entity.

Two in three Business Debtline clients (64%) use a personal bank account to manage income, payments and transactions in relation to their business or self-employment.

78. Annual Impact Survey 2017, base 169

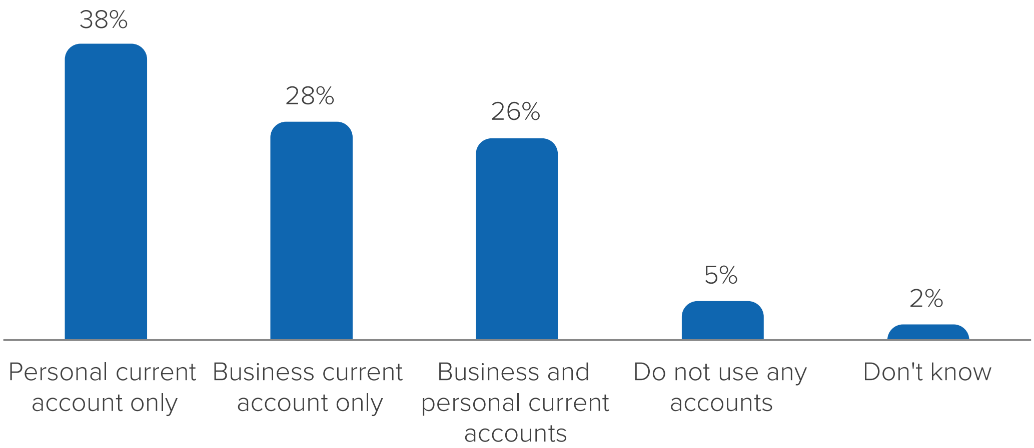
79. Annual Impact Survey 2017, only answered by those who said they use a personal account to manage their business finances (105)

Figure 5.6

Source:
Business Debtline survey data

Note: percentages shown do not add up to 100 due to rounding

Type of current account used to manage business or self-employment finances



The results for Business Debtline clients are similar to the findings related to the self-employed population in the FCA's Financial Lives Survey 2017.[80] Approximately half (48%) of people who are self-employed said that they used a personal current account only to manage income, payments and transactions in relation to their business or self-employment. Only 27% of self-employed people said that they had a business current account to manage their business or self-employment finances. 17% said that they used both types of accounts, while 5% said that they did not use any accounts.

A single personal current account for managing both business and personal finances might be considered the simplest option for many of the people who are self-employed, particularly for those who are new to self-employment or work part-time. However, mixing business with personal finances makes it more difficult for small businesses to budget and manage their money. This approach also makes it more difficult to calculate and declare tax, or identify potential tax reliefs. Furthermore, it might limit the business' borrowing power, often leading to more expensive ways of borrowing such as overdrafts, payday loans and personal credit cards. Mixing personal and business finances can mean that the resulting debt problems become more complex.

Some callers feel that using a separate personal current account for business purposes is a better solution for them, particularly as personal basic bank accounts are 'free' (in that they do not have monthly charges). For some self-employed people, and particularly sole traders without any employees, this is often the preferred option. Business bank accounts are not usually attractive given that they are more likely to have account fees and charges for transactions (for example, for deposits and to pay in cheques). Business account fees vary. They may be free for the first few months and then charge a monthly or annual fee. Charges for transactions are usually set by type of transaction (e.g. cash deposits, the number of cheques collected or cleared etc.) and depend on the number of transactions. The resulting total cost can be significant.

About half (46%) of the respondents to the FCA's Financial Lives Survey 2017[81] who used a business account to manage income, payments and transactions in relation to their business or self-employment, said that their business account had a monthly fee, and for about 18% of them, their business account also had a fee per transaction. Only 23% of respondents said that their business account was without fees.

80. Financial Conduct Authority, Financial Lives 2017

81. Ibid.

The use of a personal account for business finances could also be a sign that opening a business account for people who are self-employed is not necessarily a simple thing to do. This could be because of the potential barriers that exist, for example due to the size or performance of their business, or due to the lack of suitable products for their needs. This could also be due to a lack of awareness of more appropriate financial products.

The vast majority of Business Debtline clients had personal debts including credit cards (86%), overdrafts (60%) and personal loans (42%), although only a few had business credit debts.[82] According to the FCA's Financial Lives Survey 2017, the vast majority (over 85%) of people who are self-employed do not hold business credit products such as a credit card or business mortgage.[83] Accessing certain credit products might be a challenge for some self-employed people, given the need to present evidence of regular or high earnings.

Open Banking has the potential to bring about innovation in product design which could in the future benefit people who run small businesses – for example, the development of cashflow and wider business management tools based on real transaction data. Of course, for self-employed people and small business owners to enjoy the full benefits of Open Banking, digital exclusion, concerns around data protection and privacy as well as risk of fraud must be properly addressed.

Recommendations

- **UK Finance, the Single Financial Guidance Body and business representative bodies** should work together to raise awareness of the availability of business banking products, and the advantages of disentangling personal and business finances where possible for self-employed people and other small business owners.

- **UK Finance** should conduct a gap analysis to identify whether the self-employed and other small business owners, as a customer group, are currently being well served by the banking industry – and make recommendations for the development of new products as appropriate.

82. The figures are based on a snapshot sample of 332 randomly selected callers to Business Debtline during March 2018

83. Financial Conduct Authority, Financial Lives 2017

5.4. Business management skills gap

Research by ONS suggests that fewer than half of businesses survive their first five years. The UK five-year survival rate for businesses set up in 2011 and still active in 2016 was 44.1%. The lowest survival rate was in the accommodation and food services sector, with only 34.6% of businesses surviving for five years.[84]

Of course, external factors such as competition, access to finance, tax policy, and the status of the economy and consumer confidence are significant determinants of business survival.

However, from our experience at Business Debtline, we see that many people become self-employed or start their own enterprise without first getting advice about business-related issues or having made plans for running their business.

A lack of entrepreneurial skills and poor planning are factors that can increase the risk of business failure. Business awareness and business management skills can help to prevent debt problems before they occur.

The advice people receive through Business Debtline helps them to manage and control their debts. For many of them, it also has an overall positive effect on both their personal and business financial capability. Most people we surveyed said that the advice they received helped them to get more in control of their finances (82%)[85] and that they felt they were less likely to find themselves in a similar situation again (86%).[86]

Many of them also said that the advice they received helped their business to continue trading (58%).[87]

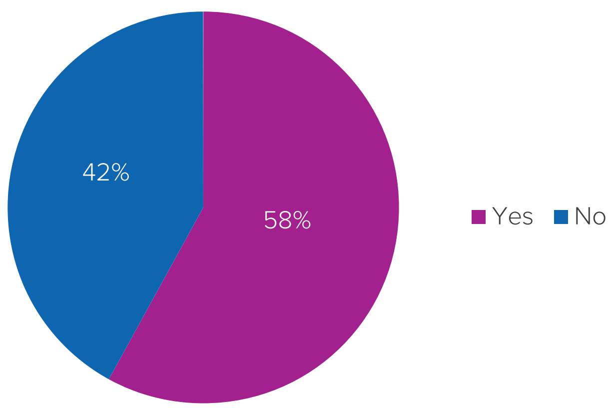
The advice people receive through Business Debtline enables them to better manage essential, everyday business matters. People said that the advice they received from Business Debtline helped them to learn how to create a budget (20%), learn more about their business liabilities such as tax returns and VAT (15%) and understand the need to separate their personal and business finances and expenses (16%).[88]

A lack of entrepreneurial skills and poor planning are factors that can increase the risk of business failure.

Figure 5.7

Source: Business Debtline survey data

Over half of the people surveyed said that our advice helped them to continue trading



84. Office for National Statistics, Statistical bulletin: Business demography, UK: 2016 – Change in the number of UK businesses broken down by sector of the economy, November 2017

85. Annual Impact Survey 2017, base 168

86. Annual Impact Survey 2017, base 175

87. Annual Impact Survey 2017, base 108

88. Quarterly Survey Q1 - Q2 2017 base 227

We also asked the people we helped through Business Debtline to tell us about their confidence before they started trading on essential business matters such as doing a budget, constructing business plans and completing tax and VAT returns.

Although most people felt confident to complete a budget (80%), understand different trading status definitions (74%) and calculate cash flow and profits (72%), they were less confident about how to construct business plans (59%) and even less so around tax and VAT matters (understanding tax and VAT obligations: 56%; compiling tax and VAT returns: 47%).[89]

From our surveys, we see that many of the people we help might lack the essential skills and knowledge needed to manage their finances and run their businesses.

Given that business failure is one of the main reasons our Business Debtline callers fell into debt, this could be associated with the lack of skills and knowledge the individuals had to run and manage a business. The advice people get through Business Debtline helps them to manage their debts but also to manage their business finances better.

How our advice has helped our Business Debtline clients with running their businesses

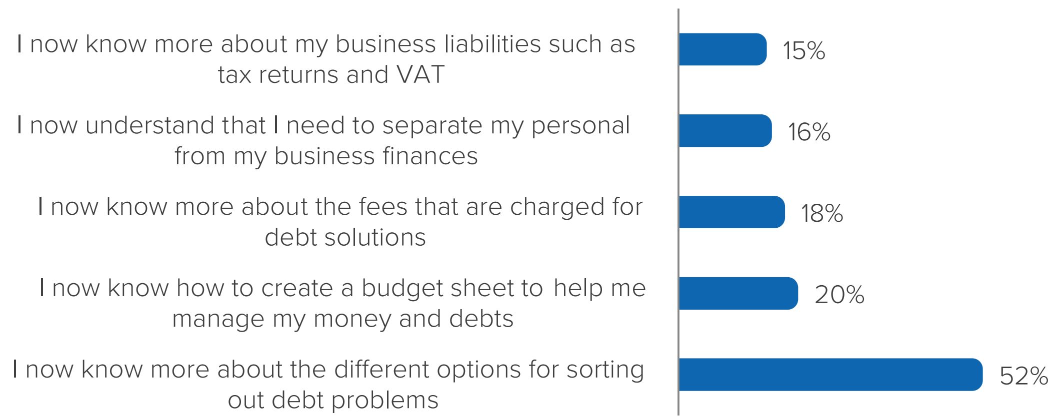


Figure 5.8

Source: Business Debtline survey data

Note: sum of percentages exceeds 100 due to multiple choice question

How confident Business Debtline clients were before they started trading on essential business matters

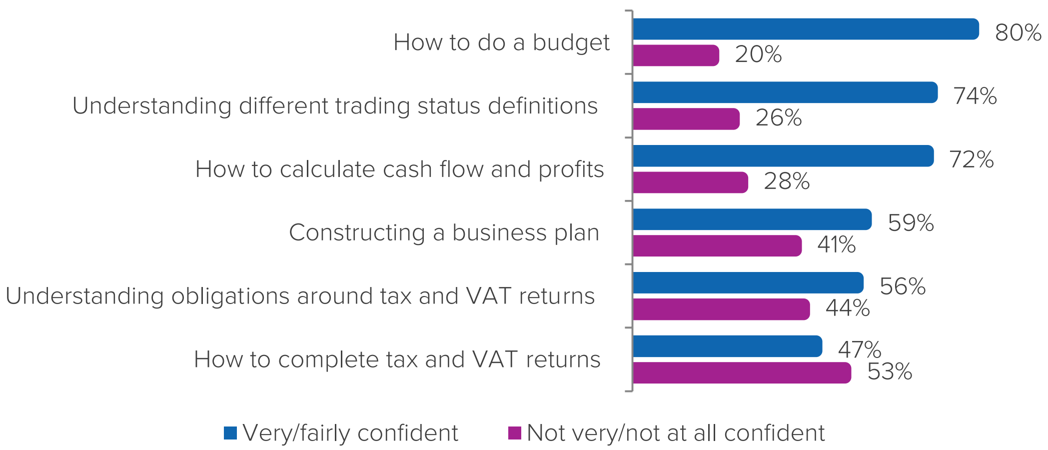


Figure 5.9

Source: Business Debtline survey data

89. Quarterly Survey Q2 2018 base 135

There seems to be a general issue when it comes to the skills and knowledge that many self-employed people have to run and manage their businesses. People who are self-employed are less likely to undertake training than employees and the cost of training and having to take time off work are limiting factors. New research by the Federation of Small Businesses (FSB) suggests that three-quarters of sole traders (75%) and almost half (49%) of micro-businesses have neither a training plan nor a training budget. It also finds that 25% of small businesses do not consider digital skills to be important in enabling the growth of their business.[90]

Preparation and training can help people to enter into self-employment and help them to survive once they are trading. The FSB suggests that there are minor improvements that smaller businesses and sole traders can make that can improve their productivity. These include improvements in leadership and management practices and the adoption of digital technology.[91] Research suggests that 30% of low-paid, self-employed individuals who receive training are able to escape from low pay one year later, compared to 24% of those who do not.[92] Small businesses that have formal management practices in place are more likely to exhibit higher rates of growth.[93]

The government has recently consulted on extending tax relief for training by employees and the self-employed to support up-skilling and retraining. Most employers fund work-related training for their employees. Employees can also receive tax relief when they pay for essential training related to their work. Also, the self-employed can deduct the cost of training only if that is to maintain or update existing skills related to their business but not when training would help with new skills. The government is looking at how existing tax relief could be extended to support good quality training for those wanting to up-skill or retrain, particularly those who want or need to change career.[94]

Focusing on more training and support could improve earnings and productivity but also could help reduce the debts of people who are self-employed. People can use services such as the National Careers Service to get guidance on career matters including becoming self-employed.

Furthermore, they can obtain information though Jobcentre Plus or the New Enterprise Allowance scheme, which offers workshops for people considering self-employment.

Despite its potential to improve performance, the take-up of business support has been declining. In 2017, only 29% of small and medium-sized enterprise (SME) employees sought external information and advice, down from 49% in 2010. In addition, the adoption of digital technologies has been slow as people still have concerns around the skills required, the cost of adoption and security. [95]

Recommendations

- **HM Treasury** should consider how the tax system can be used to encourage self-employed people and other small business owners to engage in training – and work with other departments and agencies to raise awareness of any changes resulting from its recent consultation on training-related tax reliefs.[96]

- **The government** should improve and more actively promote the availability of free and independent advice to support people who are considering becoming self-employed or starting their own small business such as the National Careers Service and the New Enterprise Allowance Scheme, which provides mentoring and financial support to out-of-work benefit recipients and low-earning Universal Credit claimants to start and grow a business.

- **The Single Financial Guidance Body**, as part of its role to support and co-ordinate the development of a national strategy to improve the financial capability of individuals, should promote the availability of free and independent support and advice for self-employed people and other small business owners – including the Business Support Helpline, Business Gateway Scotland, Business Wales Helpline and Small Business Commissioner.

90. Federation of Small Businesses, Spotlight on innovation: How government can unlock small business productivity, July 2018
91. Ibid.
92. Social Market Foundation, Tough gig: Tackling low paid self-employment in London and the UK, October 2016
93. NIESR, The impact of management practices on SME performance, March 2018
94. HM Treasury and HM Revenues & Customs, Consultation: Taxation of self-funded work-related training, March 2018
95. Department for Business, Energy and Industrial Strategy, Statistical Release, Longitudinal Small Business Survey 2017; Department for Business, Energy and Industrial Strategy, Made Smarter Review, 2017
96. HM Treasury and HM Revenues & Customs, Taxation of self-funded work-related training: Consultation on the extension of tax relief for training by employees and the self-employed, March 2018

5.5. Vulnerable circumstances

The FCA defines a vulnerable consumer as, *"someone who, due to their personal circumstances, is especially susceptible to detriment, particularly when a firm is not acting with appropriate levels of care."*[97]

Being in a vulnerable situation can affect all aspects of one's life including the management of a business. A significant proportion of the people we help at Business Debtline consider themselves to be in a vulnerable situation. The majority of the callers we surveyed (69%) considered themselves as being in a vulnerable situation when they contacted Business Debtline for advice.[98]

Financial difficulties (e.g. the business losing money, job loss, limited or no income) were the main reason people gave for being in a vulnerable situation. Depression, anxiety and stress either due to personal circumstances (e.g. bereavement, an illness being diagnosed) or driven by their financial situation were factors that were commonly cited. There were also a small number of respondents who said that they felt suicidal at the time they called Business Debtline for advice.[99]

Many of those who described themselves as vulnerable said that as a result of their vulnerable situation, they struggled to trade. They often put a lot of effort and time into dealing with their problems, which made it almost impossible to work.

Their situation impacted their income further as some people could no longer trade and had lost contracts as a result. They then felt more nervous and stressed, which exacerbated the situation further.

Vulnerable circumstances can also be caused or exacerbated by the actions or processes of creditors.

The impact of vulnerability can be significant. Dealing with complicated and multiple issues at the same time, without adequate resources, can affect people's ability to cope or to manage their situation effectively.[100]

Being in a vulnerable situation can affect all aspects of one's life including the management of a business.

Quotes from Business Debtline clients surveyed about vulnerability

Depression Isolated Mental health
Carer for family member Children Sleepless nights
Bereavement Diagnosed with cancer Anxiety
Divorce Suicidal Redundancy HMRC Stress
Very low Ill-health Debt Relationship breakdown
Creditors Tired Not being able to cope Lost everything

97. Financial Conduct Authority, Occasional Paper No. 8: Consumer Vulnerability, 2015

98. Annual Impact Survey 2017, base 207

99. Annual Impact Survey 2017, based on 113 written comments the surveyed clients provided.

100. Financial Conduct Authority, Occasional Paper No. 8: Consumer Vulnerability, 2015

The majority of the callers we surveyed (69%) considered themselves as being in a vulnerable situation when they contacted Business Debtline for advice.

The experiences of Business Debtline clients in vulnerable circumstances was explored in detail in a recent report published by the Money Advice Trust and Lending Standards Board (LSB).[101] The research found that there is often a direct link between a business' financial difficulties and the person running the business experiencing some form of vulnerable circumstance, such as a serious illness or mental health problem.

The report explored the impact of vulnerable circumstances on people who run small businesses and suggested ways for creditors to improve their practices and further train their staff in order to identify small business owners who are in vulnerable circumstances and offer them appropriate support.

The report finds that while progress is being made, there is more that can be done to support business customers in vulnerable circumstances. The findings aim to stimulate discussion in this area and enhance firms' understanding of how vulnerability affects their business customers.

The LSB Standards of Lending Practice for Business Customers, which came into effect in July 2017, set out standards of good practice in relation to lending to business customers, across the lifecycle of the product. Experience and insight from Business Debtline helped to shape and inform these standards and ensure that the standards cover vulnerability, and that they aim to support creditors in identifying and addressing situations where an individual within a business either is in vulnerable circumstances, or the creditor has reason to suspect that they may be vulnerable in some way.[102]

Early identification of vulnerability by creditors can play a vital role in reducing credit risk and any subsequent potential debt for the vulnerable self-employed population.

Creditors are being encouraged to undertake a gap analysis to assess potential improvements to their policies and processes in the five key areas of policy, identification, support and management, training, and monitoring.

Recommendations

- **Financial services firms** should undertake a gap analysis to assess where they are now and where they need to be to support small business customers in vulnerable circumstances, as recommended by the LSB and Money Advice Trust. Firms should assess their current policies when it comes to small business customers in vulnerable circumstances, as well as the processes they have in place for early identification, support and management of such customers. They should also assess where they are in terms of training to build and enhance their staff capability.[103]
- **Creditors across sectors** should give the same emphasis to improving outcomes for people in vulnerable circumstances in the context of their business customers as to their personal customers – including by ensuring that business customer-facing staff are trained in how to identify, understand and support these customers. To achieve this, creditors of all kinds should take the same 'gap analysis' approach being advocated for financial services firms.

101. The Lending Standards Board and Money Advice Trust, Supporting business customers in vulnerable circumstances, July 2018

102. The Lending Standards Board , The Standards of Lending Practice for Business Customers, 2017

103. The Lending Standards Board and Money Advice Trust, Supporting business customers in vulnerable circumstances, July 2018

5.6. Problems with tax and benefits

People who are self-employed can find calculating and declaring tax a complicated and time-consuming task. The complexity of the tax system seems to be a key issue for many self-employed people, but cash flow issues can also make it difficult to pay tax on time.

FSB research suggests that small businesses lose around £5,000 a year on tax compliance and spend three working weeks a year on tax compliance issues, with the majority employing external advisers to ensure compliance.[104] The same research indicates that many small businesses[105] do not feel well informed about tax reliefs and some find it difficult to understand the taxes they have to pay.[106]

The people we help through Business Debtline often tend to have problems with business income tax and VAT. Some of the people we surveyed said that Business Debtline's advice helped them to learn more about their business liabilities such as tax returns and VAT (15%) and the need to separate their personal and business finances and expenses (16%).[107]

When we asked people about their confidence in relation to tax and VAT matters, many said that they had low or no confidence at all on compiling tax and VAT returns (53%) or knowledge of their obligations around tax (43%).[108] Many Business Debtline clients find understanding their tax liabilities and navigating the tax system difficult.

More support for people who are self-employed to find out about their tax obligations and how to calculate and declare tax is essential. HMRC's introduction of Making Tax Digital (MTD) should allow for tax to be estimated early and reduce uncertainty over tax returns.

Implementation of MTD does not come without challenges, particularly for the smallest businesses. To ensure compliance, businesses will need to make essential changes to their existing processes and systems, particularly those small businesses that still complete their returns on paper. Furthermore, mandatory quarterly reporting will add additional burden to those businesses that complete their returns manually. The transition to MTD is expected to be costly both in terms of time and physical costs.

Many Business Debtline clients find understanding their tax liabilities and navigating the tax system difficult.

The top four benefits/tax credits Business Debtline clients receive

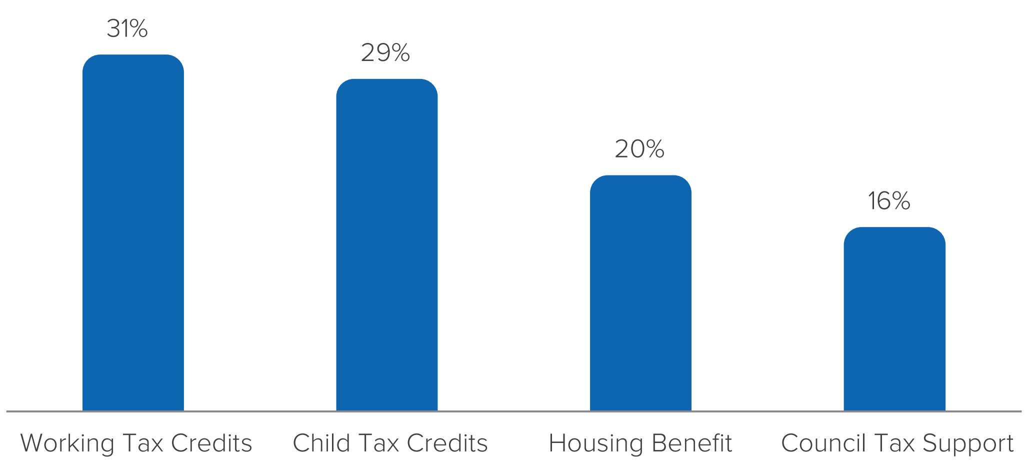


Figure 5.10

Source:
Business Debtline data

104. Federation of Small Businesses, Taxing times: Routes to reform for small businesses as taxpayers, February 2018

105. 55% of the surveyed businesses

106. 36% of the surveyed businesses

107. Quarterly Survey Q1 - Q2 2017, base 227

108. Quarterly Survey Q2 2018, base 135

Of course, in some cases, owing money to HMRC is not just a matter of error and lack of understanding but is a result of cash flow issues (e.g. due to late payments by suppliers) and this also needs to be addressed. Early estimation through MTD should help people to plan and budget for tax. However, late payment issues should be considered more thoroughly.

With regards to benefits, 25% of the people we help receive some form of benefit or tax credit income. Of those receiving benefits or tax credits the most common that clients are in receipt of are Working Tax Credit (31%), Child Tax Credit (29%), Housing Benefit (20%) and Council Tax Support (16%).[109]

Universal Credit is being introduced in stages across Great Britain by postcode area, combining six different working-age benefits into a single system, including Housing Benefit, Child Tax Credit and Working Tax Credit.[110]

People who are self-employed are eligible for Universal Credit (during the deployment phase this depends on where they live). For most claimants who have been self-employed for more than 12 months, Universal Credit payments are calculated based on a Minimum Income Floor (MIF) – essentially an assumption that the claimant is earning the National Minimum Wage or more every month.

However, as people who are self-employed tend to have irregular incomes, their incomes might not reach the MIF every month, and in these months the difference will not be made up by a larger Universal Credit payment.

Although these rules have been introduced to reduce people manipulating their incomes, they become problematic in the case of self-employed people who tend to have very irregular and volatile incomes.[111]

In addition to this concern particular to self-employed claimants, ongoing concerns have been raised during the roll-out of Universal Credit over the time it takes for people to receive their first payment, leading some into financial difficulty.[112]

109. Customer Relationship Management system, Business Debtline, 2017

110. In areas that Universal Credit has not been introduced yet, people can still claim benefits and tax credits as before.

111. Citizens Advice, Universal Credit and Modern Employment: Non-traditional work, April 2018

112. Britain Thinks, Learning from the experiences of Universal Credit – A report for the Joseph Rowntree Foundation, March 2018

Recommendations

- **HMRC** should offer greater flexibility on tax payment due dates where small businesses are impacted by late payments. As we have recommended for all creditors, this could include working with the Small Business Commissioner to explore the development of a fair set of criteria for when this could apply, and a mechanism to ensure appropriate application of these measures.
- **HMRC** should work with the new **Single Financial Guidance Body** to provide more support to self-employed people and other small business owners to help them to find out about their tax obligations, calculate and declare tax due, and manage their tax affairs.
- **DWP** should review the support provided within Universal Credit for self-employed people, including reviewing the impact of the Minimum Income Floor on claimants with low and irregular incomes from self-employment.

5.7. Lack of financial resilience

People who are self-employed have a wide range of earnings, and often also experience volatile or irregular earnings. In these circumstances, saving might not always be a feasible option and pension saving can be seen as less of a priority.

A significant proportion of the self-employed workforce is either approaching – or soon to be reaching – retirement age. According to research, a significant minority (39%) of the self-employed population do not use any tool to save for retirement and only a third (31%) are currently saving into a private/personal pension.[113]

There are different ways that people who are self-employed might fund their retirement, for example, they might sell their business, have a buy-to-let property or rely on their state pension. There are also some self-employed people who do not intend to retire. However, for some people who are self-employed, a lack of either a pension or savings is simply an indication that they cannot afford it. According to IPSE, individuals that find it hard to save for a pension are typically drivers, cleaners, mechanics, child minders and carers.[114]

We asked the people we help at Business Debtline about pensions and savings; most of them (58%) said that they had not been contributing to a (private) pension, nor did they have savings. The main reason given was that they did not have enough money to afford the contributions. In addition, another reason mentioned was a lack of knowledge and understanding of pensions and saving.[115] Some people said that they had either an occupational pension (32%) or a buy-to-let property (10%).

Four-in-five Business Debtline clients (80%) had some assets, for example property equity or a car; and the average value of their assets was £69,162.[116]

This figure is higher than in 2015, when the average asset value per client was £60,053 (nominal values).[117]

According to the FCA's Financial Lives Survey 2017, self-employed people who do save are slightly more likely to be motivated by providing income during their retirement and to cover short term expenses.[118] The survey also suggests that the way self-employed people save reflects the unpredictability of their earnings. People who are self-employed are more likely to save when they can during the year, while employees are more likely to save regularly, for example, monthly and the same amount every time.[119]

The introduction of pensions automatic enrolment in October 2012 means that employees earning above the earnings threshold are automatically enrolled into a pension scheme. Employers are also required to pay money into the scheme. Pension participation for employees has increased substantially following the introduction of the scheme (from 49% in 2012/13 to 66% in 2016/17). However, participation rates for self-employed people, who are of course not affected by automatic enrolment, have actually dropped (from 19% in 2012/13 to 16% in 2016/17).[120]

113. The Association of Independent Professionals and the Self Employed, The rise of self-employment in modern Economy, March 2018

114. The Association of Independent Professionals and the Self Employed, Enable the vulnerable self-employed to break free, 2018

115. Quarterly Survey Q2 2018, base 146

116. The figures are based on a snapshot sample of 332 randomly selected callers to Business Debtline during March 2018

117. The figures have not been adjusted for inflation and seasonality (snapshot sample of 173 randomly selected callers to Business Debtline during May 2015

118. Financial Conduct Authority, Financial Lives 2017

119. Ibid.

120. Department for Work and Pensions, Family resources survey 2016/17

People who are self-employed have a wide range of earnings, and often also experience volatile or irregular earnings. In these circumstances, saving might not always be a feasible option and pension saving can be seen as less of a priority.

Recommendations

- **DWP** should review the extent to which self-employed people are able to access pension products, including exploring how pension products could be better tailored to the needs of, and marketed to, this section of the UK workforce.

- The new **Single Financial Guidance Body** should provide money guidance specifically targeting self-employed people on the importance of saving, both in the short term and in the form of pension saving.

5.8. Experiences with creditors

The advice people receive through Business Debtline empowers them to take action and resolve their debt problems themselves. Most of the people we help make personal contact with the companies they owe money to after they receive advice from our advisers (79%).[121] The majority of people we surveyed said that they felt glad that they had taken steps to sort out their debts themselves (77%).[122] Many of our clients also said that they came to an arrangement with at least some of their creditors to repay them (53%).[123]

The earlier people communicate with them the easier it is for creditors to put an arrangement in place to repay debts before the debt problem escalates. Self-employed people who responded to the FCA's Financial Lives Survey 2017 considered that they had been generally treated fairly by their creditors.

We also asked Business Debtline clients to tell us about their personal experiences and how fairly they felt they had been treated by their creditors.[124] It should be noted that this question addresses clients' *perception* of their treatment by their creditors, and so is not necessarily an objective measure.

Business Debtline clients generally felt that they had been treated at least quite fairly by their creditors.[125]

However, a significant minority – approximately one in three of those we surveyed – said that they felt that they had not been treated very fairly or not fairly at all by some of their creditors, including HMRC, local authorities, utility companies (energy and water) and debt collection agencies.

121. Annual Impact Survey 2017 question base 190

122. Annual Impact Survey 2017 base 180

123. Annual Impact Survey 2017 base 148

124. Annual Impact Survey 2017 base 207

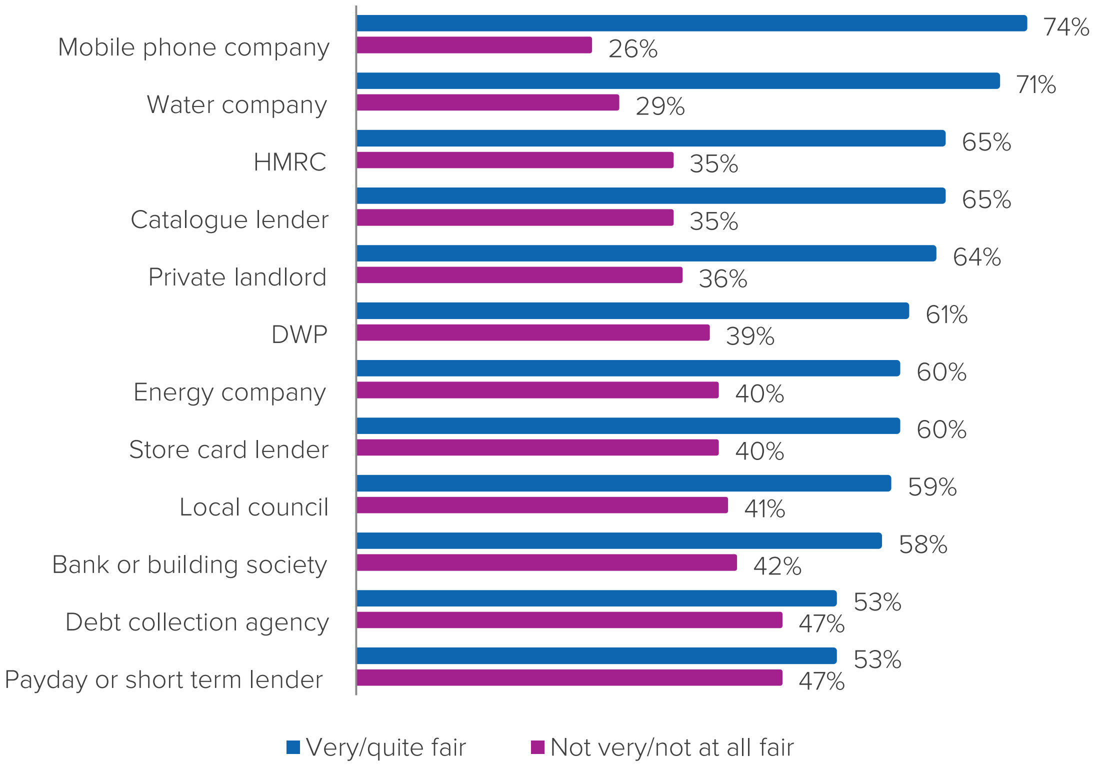
125. Ibid.

Approximately one in three of those we surveyed said that they felt that they had not been treated very fairly or not fairly at all by some of their creditors, including HMRC, local authorities, utility companies (energy and water) and debt collection agencies.

Figure 5.11

Source: Business Debtline survey data

Business Debtline clients' perception of their treatment by their creditors



This is comparable to what we have seen at National Debtline. In a similar survey of National Debtline clients, about one in three people also said they felt that they had not been treated very fairly or not fairly at all by some of their creditors. The fact that some people still feel that they have not been treated fairly by their creditors can be seen as an indication that not all creditors use the same approach when dealing with their customers. It could also be an indication that individual customers might be treated differently for example due to complexity of their problems. As the question was about the *perceived* fairness of creditors, it could be an indication that individual customers might have different expectations to those of their creditors when dealing with their cases.

The LSB Standards of Lending Practice for Business Customers sets out standards of good practice in relation to business customers in financial difficulty. In line with the standards, lenders should provide appropriate support to their customers to help them deal with their debts.

For example, this could include giving people time to consider the options available to them and for the lender to offer their customers solutions that do not exacerbate their situation.[126]

Recommendations

- **Creditors across sectors** should ensure they put in place debt advice referral strategies for self-employed people and other small business owner customers such as referring to Business Debtline for free, independent advice and support.

- **Creditors across sectors** should review their policies and practices against the key challenges that have been identified in this report, and ensure that these are appropriate for their business, as well as personal customers.

126. The Lending Standards Board , The Standards of Lending Practice for Business Customers, 2017

6. Summary of recommendations

The recommendations presented throughout this report are grouped here into our recommendation for government, regulators, creditors and the advice sector.

Low and variable incomes

- The new **Single Financial Guidance Body (SFGB)**, which the government has confirmed will have self-employed people within its remit for debt advice, money guidance and pensions guidance, should develop or commission money guidance content for self-employed people on low incomes and with debt problems. This should complement the Money Advice Service's commissioning strategy for debt advice which targets, among other groups, 'people with variable incomes from employment.'

- **HM Treasury** should ensure that small business debts are included in its planned Breathing Space scheme offering protections from interest, charges and enforcement action for people seeking debt advice. The final design of the scheme should account for the particular needs and circumstances of self-employed people in financial difficulty, in addition to people who are employed and unemployed.

- **'Gig' economy platforms** should provide, or provide links to, financial capability and money guidance interventions, as part of a drive to demonstrate greater responsibility towards to the wellbeing of 'gig' economy workers.

- **The government** should take steps to ensure the development of 'portable benefits platforms' as recommended by the Taylor Review, connecting self-employed people with a range of non-statutory benefits and protections. Such platforms can enable people's access to certain non-statutory benefits and protections. Further, they can remind them to make payments to their pension or take on additional training to progress their careers.

Late payments

- The **government** should enshrine the Prompt Payment Code in law and give more powers to the Small Business Commissioner as recommended by IPSE and the IPA.[77] Prompt Payment Code standards state that payments should be made within 30 days and that no business should be ever been paid more than 60 days after completion of work should become mandatory. The Small Business Commissioner should be empowered to fine persistent late payers.

- The **government** should expand the remit of the Small Business Commissioner to cover disputes involving late payments by local authorities, NHS organisations and other public sector bodies.

- **Creditors** should consider how to provide greater forbearance and flexibility on repayment dates for small businesses that have been affected by late payments. This could include working with the Small Business Commissioner to explore the development of a fair set of criteria for when this could apply, and a mechanism to ensure appropriate application of these measures.

Use of banking products

- **UK Finance, the Single Financial Guidance Body and business representative bodies** should work together to raise awareness of the availability of business banking products, and the advantages of disentangling personal and business finances where possible for self-employed people and other small business owners.

- **UK Finance** should conduct a gap analysis to identify whether the self-employed and other small business owners, as a customer group, are currently being well served by the banking industry – and make recommendations for the development of new products as appropriate.

Business management skills gap

- **HM Treasury** should consider how the tax system can be used to encourage self-employed people and other small business owners to engage in training – and work with other departments and agencies to raise awareness of any changes resulting from its recent consultation on training-related tax reliefs.

- **The government** should improve and more actively promote the availability of free and independent advice to support people who are considering becoming self-employed or starting their own small business such as the National Careers Service and the New Enterprise Allowance Scheme, which provides mentoring and financial support to out-of-work benefit recipients and low-earning Universal Credit claimants to start and grow a business.

- **The Single Financial Guidance Body**, as part of its role to support and co-ordinate the development of a national strategy to improve the financial capability of individuals, should promote the availability of free and independent support and advice for self-employed people and other small business owners – including the Business Support Helpline, Business Gateway Scotland, Business Wales Helpline and Small Business Commissioner.

Vulnerable circumstances

- **Financial services firms** should undertake a gap analysis to assess where they are now and where they need to be to support small business customers in vulnerable circumstances, as recommended by the LSB and Money Advice Trust. Firms should assess their current policies when it comes to small business customers in vulnerable circumstances, as well as the processes they have in place for early identification, support and management of such customers. They should also assess where they are in terms of training to build and enhance their staff capability.

- **Creditors across sectors** should give the same emphasis to improving outcomes for people in vulnerable circumstances in the context of their business customers as to their personal customers – including by ensuring that business customer-facing staff are trained in how to identify, understand and support these customers. To achieve this, creditors of all kinds should take the same 'gap analysis' approach being advocated for financial services firms.

Problems with tax and benefits

- **HMRC** should offer greater flexibility on tax payment due dates where small businesses are impacted by late payments. As we have recommended for all creditors, this should include working with the Small Business Commissioner to explore the development of a fair set of criteria for when this could apply, and a mechanism to ensure appropriate application of these measures.

- **HMRC** should work with the new **Single Financial Guidance Body** to provide more support to self-employed people and other small business owners to help them to find out about their tax obligations, calculate and declare tax due, and manage their tax affairs.

- **DWP** should review the support provided within Universal Credit for self-employed people, including reviewing the impact of the Minimum Income Floor on claimants with low and irregular incomes from self-employment.

Lack of financial resilience

- **DWP** should review the extent to which self-employed people are able to access pension products, including exploring how pension products could be better tailored to the needs of, and marketed to, this section of the UK workforce.

- The new **Single Financial Guidance Body** should provide money guidance specifically targeting self-employed people on the importance of saving, both in the short term and in the form of pension saving.

Experiences with creditors

- **Creditors across sectors** should ensure they put in place debt advice referral strategies for self-employed people and other small business owner customers such as referring to Business Debtline for free, independent advice and support.

- **Creditors across sectors** should review their policies and practices against the key challenges that have been identified in this report, and ensure that these are appropriate for their business, as well as personal customers.

Money Advice Trust

The Money Advice Trust is a charity formed in 1991 to help people across the UK tackle their debts and manage their money with confidence.

MONEY
ADVICE TRUST

BUSINESS DEBTLINE
NATIONAL DEBTLINE
WISER ADVISER

ADVICE YOU CAN TRUST

www.moneyadvicetrust.org