BUSINESS DEBTLINE

MONEY ADVICE TRUST

Back to business

Supporting people in self-employment to bounce back from Covid-19

December 2020

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.

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

www.businessdebtline.org

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Foreword

People who are self-employed and running small businesses have been hit heavily by the Coronavirus outbreak. At the start of the crisis, our Business Debtline advisers were speaking constantly to people who had seen their entire incomes disappear overnight, who were fearful for their businesses, themselves and their families.

Nine months on, small businesses continue to face huge challenges, despite the extraordinary steps many have taken to adapt to this most unexpected of situations.

It is perhaps unsurprising, therefore, that our research with self-employed people across the UK reveals a significant increase in the number falling behind with their personal and business bills and credit commitments.

The introduction of vital support from the Government, regulators and creditors has undoubtedly helped to stabilise some people's income in the short term. For others, however, the sheer scale of the impact means this support has not been enough to keep them out of financial difficulty – and many have been left unable to access support at all.

With the end of the small business crisis not yet in sight there is a very real sense that things could get worse before they get better. Through our Business Debtline service, we are proud to help tens of thousands of people every year to tackle their business and personal debts, and we will do all we can to support those who need us in the months and years ahead. The scale of the challenge facing self-employed people and small business owners, however, must not be underestimated.

As we set out in this report, the Government must urgently set out a Covid-19 Self-employment Recovery Strategy to help people in the wake of this crisis. As part of this, there should be a dedicated grant fund for those who have so far been excluded from support, improvements to the support available through Universal Credit and stronger action on late payments.

Meanwhile, regulators and creditors should recognise that self-employed customers are facing particular challenges and be prepared to show appropriate flexibility and forbearance across their personal and business debts. For those who do fall behind, there needs to be safe routes out of debt and fair and affordable approaches to collection - including from HMRC and other government creditors.

Action now can help save many small businesses, and protect the vital contribution they make to the UK economy – something which is more important now than ever before.

Joanna Elson

Joanna Elson CBE
Chief Executive, Money Advice Trust

Executive summary

Self-employed people and small business owners have been badly hit by the impact of the Covid-19 outbreak. Our UK-wide research with more than 2,500 self-employed people and small business owners reveals that - while many have shown incredible resilience and worked hard to adapt to the ever-evolving situation - this has often not been enough to prevent them from falling into financial difficulty.

The impact of Covid-19

The drop in income many self-employed people have experienced has unsurprisingly impacted upon some people's ability to pay their bills. Almost one in three (29%) self-employed people surveyed as part of this research had fallen behind on one or more household bill, business bill or credit commitments, as a direct result of the financial impact of the coronavirus outbreak.

Many of those who have fallen into debt due to Covid-19 were not in financial difficulty before - one in six (15%) had not experienced any debt problems in the year before the pandemic hit. While it is not unusual for self-employed people to take on debt in the course of their business, this does nevertheless point to the direct financial impact that Covid-19 has had on many.

Despite the fact that the immediate impact of coronavirus was on people's businesses – usually through reduced trade – the nature of many self-employed people's finances means this has more commonly been felt in their personal finances. Almost twice as many people had fallen behind on household bills as a direct result of the crisis, compared to business bills.

This financial pressure has a significant knock-on impact. More than half (55%) said the financial worries caused by Covid-19 had a negative impact on their mental health and more than two in five (43%) had been regularly losing sleep as a result.

The challenges many people are facing risk being exacerbated by the long-standing issue of late payments. Over a third (38%) of people surveyed said their business had experienced an increase in late payments since the coronavirus outbreak began, and almost three quarters (72%) said it was making the financial problems caused by the pandemic worse.

Access to support

From the introduction of the Bounce Back Loan Scheme and the Self-Employment Income Support Scheme (SEISS), through to support from creditors and regulators, there has been an unprecedented and welcome raft of measures that have provided relief to many self-employed people and small business owners.

A quarter (25%) of people in our research had received a grant through the SEISS, and many were positive about the experience of applying for it and the help it had provided. However, the SEISS has not been available to everybody. It is estimated that around 2 million self-employed people were ineligible, alongside a further 2 million owner / directors running their own small businesses.[1] It was clear that those without access were facing particularly challenging situations.

1. Institute for Fiscal Studies (April 2020) Fast choices by Government provide generous income support to most workers, but leave some with nothing and others with too much.

A quarter (25%) had fallen behind on household bills, and the majority (77%) of people who expected to need debt advice in the next year were people who had not received the SEISS.

For those ineligible for the SEISS, or other specific coronavirus financial measures, Universal Credit is often the only other form of support available. With many people seeing their trade hit significantly by coronavirus, the suspension of the Minimum Income Floor and the £20 per week uplift has helped ensure people get much-needed help while living on reduced incomes.

However, despite these welcome measures, many are struggling to get by on Universal Credit alone. Almost half (47%) of self-employed people receiving Universal Credit in our research were behind on at least one household bill or credit commitment, compared to 21% amongst those not receiving it.

Support has also been made available through government-backed business loans, with around one in ten people in our research having taken one out, and the Bounce Back Loan Scheme proving the most popular. It was also common for people to have accessed payment deferrals on existing credit commitments. These have helped people to deal with temporary shocks and stabilise their finances. However, for some there are now real worries about how they will repay these.

Around three in 10 (29%) people who had taken out a government-backed loan were not confident they would be able to repay it when required.

17% of those with a mortgage payment deferral do not expect to be able to make repayments when this ends, and the figure is even higher for those with deferrals on personal credit (32%) and business credit (39%). While many have also benefitted from the option to defer tax payments to HMRC, 7% don't expect to be able to pay this back when required and 27% expect to only be able to make partial repayments. Self-employed people and small business owners in these situations need suitable flexibility and forbearance to find a safe and affordable route out of difficulty.

Looking to the future

With ongoing restrictions and public health measures in place, many are concerned that the impact on their business and finances is far from over. Self-employed people are understandably worried that the next year holds the prospect of further financial pressure and growing debt, with many expecting to need further support, including debt advice. Almost two in five (37%) expect it to be more than a year before their business income returns to pre-covid levels and six in 10 (61%) think it is likely they will experience another drop in income.

While the support provided by the Government, regulators and creditors has offered welcome short-term financial relief, the road to recovery is likely to be longer for many self-employed people who are still desperately trying to navigate their business through the impact of the outbreak.

Summary of recommendations

1. **The Government should establish a dedicated Covid-19 Self-employment Recovery Strategy** to identify and deliver the longer term measures needed to secure the financial and economic recovery of the sector as a whole. This should include considering the role of training, and the provision of accessible business and financial advice, as well as financial support.

2. **The Government should urgently introduce a discretionary grant scheme specifically to support those excluded from the Self-Employment Income Support Scheme.** The scheme could be delivered through utilising the existing infrastructure within HMRC currently set up to deliver the SEISS, and concerns about fraud could be combatted by each applicant being required to provide evidence of their eligibility – rather than having an automatic right to access based on their tax return.

3. **The Department for Work and Pensions should ensure that Universal Credit continues to provide the maximum possible support** to self-employed people. With many expecting the impact on their business and income to last for a long time yet, the suspension of the Minimum Income Floor and the £20 a week uplift should be extended beyond March 2021, with a view to reforming the Minimum Income Floor in the longer term..

4. **HM Treasury and the British Business Bank should work with lenders to ensure there is a fair and affordable approach to recovering government-backed coronavirus business loans,** including ensuring that any implications for businesses defaulting on loans is proportionate, given the unique situation many have faced due to the pandemic.

5. **The Government should actively explore the use of a Student Loan-style repayment scheme for small businesses who have taken government-backed loans they cannot afford to repay** – with repayments linked to levels of future business income.

6. **The Government should increase the powers of the Small Business Commissioner to act on late payments,** including the ability to impose penalties for non-compliance with the Prompt Payment Code, to ensure that late payments don't further disrupt businesses' ability to recover from the impact of coronavirus.

7. **Government departments – particularly HMRC and the Department for Work and Pensions - should ensure there are clear and easily accessible forbearance options for small businesses and self-employed people facing ongoing difficulty repaying debts to government,** including the option to renegotiate repayment plans for tax debts and to temporarily pause deductions from Universal Credit.

8. **The FCA, Ofgem, Ofcom and Ofwat should work with creditors and essential service providers to ensure self-employed people struggling with their bills are recognised as a particularly vulnerable group** and are therefore offered specific forbearance and flexibility across both their personal and business debts, including when coming to the end of payment deferrals. Regulators should establish 'lived experience' panels to ensure that their work adequately takes into account the needs of self-employed people.

9. **Creditors across all sectors – including government creditors – should ensure that they put in place debt advice strategies specifically for self-employed people and other small business owner customers**, including referring to Business Debtline for free, independent advice and support.

1. Introduction

The last decade has seen a significant growth in self-employment in the UK. At the end of 2019, over 5 million people in the UK were self-employed - representing over 15% of the workforce - up from 3.2 million people – and 13% of the workforce - in 2000.[2]

Self-employment and small business ownership therefore plays a critical role in the UK economy. For many, it represents the culmination of years of hard work and the sense of achievement in running a successful business can be significant.

However, when the coronavirus outbreak began in March 2020, many saw their livelihoods immediately threatened. As the outbreak has gone on, they have had to contend with restrictions on their ability to work as normal, reductions in trade, higher costs and resulting significant drops in income.

For many self-employed people, their business and personal finances are intrinsically linked meaning that any impact on their business can lead to difficulties in managing their household finances – and knock-on impacts for their health and wellbeing.

In this report, we explore the impact of Covid-19 on the business and personal finances of self-employed people in the UK – drawing on UK wide research with over 2,500 self-employed people and small business owners. We begin by considering the impact the coronavirus outbreak has had on self-employed people's ability to meet their essential bills and costs, as well as how the long-standing issue of late payments is exacerbating the negative impacts of Covid-19.

Swift action from government, regulators and creditors means that some self-employed people have been able to access much-needed support to help cope with the worst impacts of the crisis – including the flagship Self-Employment Income Support Scheme. Based on our research, we analyse how effective this support has been, as well as looking at the challenges faced by those who have been unable to access it.

Finally, this report looks at how people view their prospects for the future. With the majority of self-employed people in our research anticipating that the impact of coronavirus on their business is far from over, it is perhaps unsurprising that many predict they will face further financial difficulty in the coming year.

Based on our findings, we make recommendations for how the Government – and others – can support self-employed people, and their businesses, to recover from this crisis and once again thrive.

2. ONS (2020) *Coronavirus and self-employment in the UK*

Self-employment in the UK

Definitions of what it means to be self-employed can differ between different people – some may identify as freelancers, others sole traders, but all who work for themselves fall under the official umbrella of self-employed.[3] To understand the impact of covid-19 on self-employed people in the UK, it is therefore important to have some understanding of the relatively complex and sometimes transient nature of the workforce.

According to the latest figures from the ONS self-employed people account for just over 5 million people in the UK[4], a number that has swelled by 40% over the past two decades.[5] It is estimated that they make up approximately 15% of the UK working population, and collectively contribute £305bn to our economy.[6] The vast majority work alone, and a larger proportion of the workforce is over 65 (10%) when compared with employees (3%).[7] A fifth identify as business owners and a further 15% are sole directors of limited companies.[8]

Men are more likely to be self-employed than women, making up two-thirds of the self-employed workforce.[9] There is also a gender distinction in the types of industries worked in – with men more likely to be in construction, building or agricultural trades, while women in self-employment are more concentrated in the health and social work industry.[10] Self-employment is also more common in some ethnic groups – with a quarter (25%) of workers in the Pakistani ethnic group and 19% of those in the Bangladeshi ethnic group being self-employed – compared to 15% of those who identified as being White.

People who are self-employed typically earn less on average than their employee counterparts, their wages increase at a slower rate[11] and due to the nature of their employment they do not enjoy the same benefits and protections as the employee workforce.[12] According to latest figures from the IFS, a significantly higher proportion of the solo self-employed workforce is in relative income poverty (27% between 2018-19) compared to one in ten employees. They also found that solo self-employment is often transient and short lived with 26% leaving the workforce within a year and 38% leaving within three.[13] Once these factors are taken into consideration, it is perhaps not surprising that the outbreak of Covid-19 was initially so financially devastating for a significant number of self-employed people across the country.

3. Gov.UK: Information page on employment status
4. ONS (April 2020) *Coronavirus and self-employment in the UK.*
5. IPSE Research hub
6. IPSE and Kingston University (2019) The Self-Employment Landscape, London: Kingston/IPSE.
7. ONS (April 2020) *Coronavirus and self-employment in the UK.*
8. ibid
9. Ibid
10. Ibid
11. ONS (February 2018) Trends in self-employment in the UK.
12. ACAS: Checking your employment rights.
13. IFS (July 2020) Going solo: how starting self-employment affects incomes and wellbeing.

2. Methodology

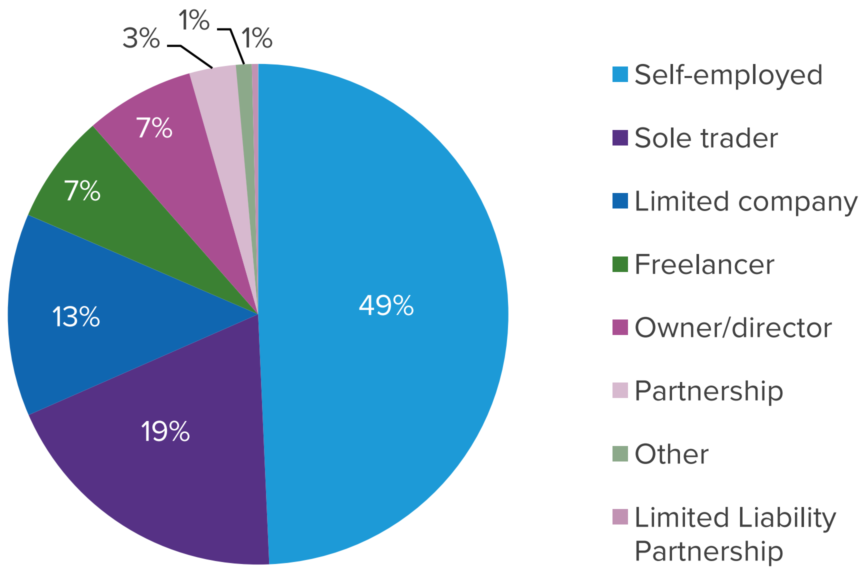
The main findings in this report are based on an analysis of a UK-wide survey of 2,508 sole traders and owners of small businesses (employing between 1-9 people).[14] The polling was commissioned by the Money Advice Trust and conducted by Opinium, with the aim of providing insight into the impact of Covid-19 and experiences of the outbreak for self-employed people and small business owners in the UK.

The field work took place online between 30th September and 19th October 2020. For the purpose of reporting, responses that indicated that the question was not relevant or that the respondent did not know the answer, such as "N/A" or "don't know", were excluded from our analysis.

At the time this research was carried out, England had not yet entered the second national lockdown so it is possible that some of the respondents are already seeing further negative financial impacts on their businesses and income, beyond what is reported in these findings.

Almost half of the people we surveyed as part of this research identified as self-employed (49%). The second most common self-identified business type was sole traders (19%) followed by those who identified as limited company owners (13%). The majority (65%) said that they were the sole employee and that their business did not employ other people.

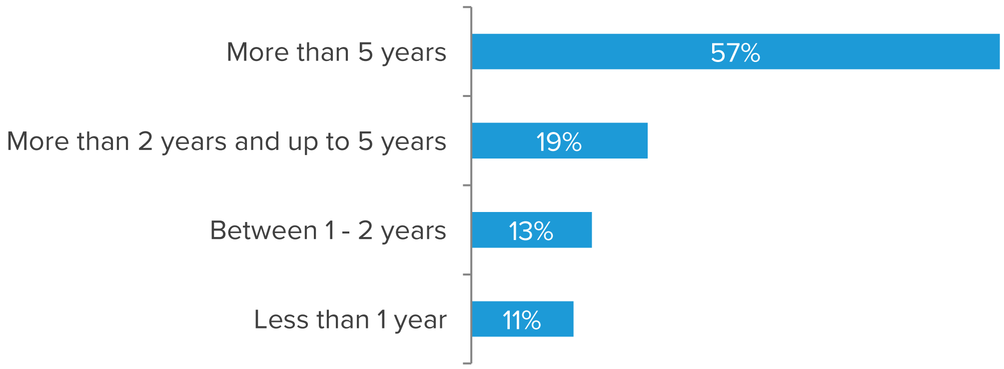
Business type of those surveyed



14. This is based on the UK Government's definition of micro businesses - those who have less than 10 employees: https://www.gov.uk/government/publications/hmrcs-small-and-medium-enterprise-action-plan-for-2019/hmrc-sme-action-plan-2018-to-2019

The majority had been in self-employment or running their business for more than five years (57%), with almost a fifth (19%) having run their business from between 2 and 5 years.

Length of time in self-employment / running a business



In terms of overall household income, the majority (60%) earned £40,000 or less in total. For the majority of respondents (58%), their business accounted for their main source of household income.

In households where the business was the main source of income, the proportion living on lower incomes (below £20,000) was higher.

Annual household income

3. The impact of Covid-19

At the time the UK went into the first lockdown to tackle the spread of the virus in March, the early indictors pointed to self-employed people being hard hit by its economic consequences. In March, the Resolution Foundation estimated that 1.7m self-employed people were likely to see a major drop in income due to the outbreak and initial lockdown.[15] Research from Ipsos MORI and Kings College London revealed that 12% of self-employed respondents were already facing financial difficulties in March, with 12% more expecting to face problems later down the line.[16]

3.1. Drops in income

The impact of the coronavirus outbreak on self-employed people's incomes was felt clearly by many of the people we spoke to for our research.

"My income dropped by 97% for 4 months. It's only just crept back up to 60% of last year."

"My business income dropped to zero at the end of march, and I am only now seeing a chance to earn much smaller income. In the meantime I have racked up large credit card bills, and cashed in my only private pension."

"I had basically to use my savings all through lockdown and had no income at all"

Survey respondents

This is an issue that has garnered widespread attention since the outbreak, and there is now a wealth of research out there supporting the view that self-employed people have seen their income particularly badly affected by the outbreak.

Our own research with former Business Debtline callers also reflects this. A third of those surveyed in May this year had experienced a complete drop in business income as a result of Covid-19, with the vast majority having little to no savings to help them weather the financial impacts.[17]

15. Resolution Foundation (March 2020) Unprecedented support for employees' wages last week has been followed up by equally significant, and even more generous, support for the self-employed. But gaps remain

16. Ipsos MORI, Britain's view of COVID-19 as 'high threat' to their business jumps 19 points in a week, 26th March 2020.

17. Money Advice Trust (May 2020) At the business end: The impact of Covic-19 on Business Debtline clients

When he contacted Business Debtline Tao* was running a small bar and restaurant but Christmas 2019 hadn't been as busy as usual, compounded by the usual drop off in trade during January and February. As a result he had fallen behind with a payment on his rent and electricity. *''I was already in financial trouble and I was trying to work out a way to get out of it so I got through winter really. I was very afraid for January and February.''* When Covid-19 hit trade diminished and then disappeared completely.

He made the difficult decision to temporarily cease trading as a result and had to let all of his staff go. Despite still having to keep paying some costs including his business lease, it wasn't viable to reopen, even before the second lockdown, as most of his trade is after 10pm so with all of his overheads he would be losing more money than he made.

The bar was Tao's only source of income so since its closure he has been struggling and the business debts have been accumulating. He had a couple of thousand pounds of savings but he has used that up now and he is in receipt of Universal Credit which has been "a life line". But this hasn't been enough for him to get his head above water. *''Pretty much every type of bill that you can owe in a business I owe. So all the suppliers, thousands of pounds on the electricity, the rates, the rent and the phone bill. I've got County Court Judgements (CCJs) in my name now where I was a personal guarantor, and business credit accounts too. I've now also got a CCJ because I couldn't pay bills in May to one of my biggest suppliers, and that's just the beginning. I could end up with three CCJs soon.'"*

A high court bailiff visited the premises but as they found it closed they went away. However, Tao is very worried for the future.

As is so often the case where a business fails, it has an impact on his personal finances too and Tao owes money on his rent and council tax. He has tried to find work but the whole hospitality sector has been hit and he is struggling to transfer his skills into other roles.

This has had a big impact on his confidence and how he feels *''I feel like I'm going down a hole and don't know if I'm going to find my way out of it. But I've just kind of gone numb now and just dealing with things as they come. Physically I'm in doubt all the time and just feel flat out of breath.''*

Tao has been able to get a payment holiday on his rent and is speaking to his other creditors but is unable to make any offers of repayment at the moment. He continues to search for work but Covid-19 has cast a long shadow over his life *''It's been disastrous for me personally and on a business level. Before, you know, generally I've been able to bounce back. This is a double whammy. Covid-19 has totally decimated things.''*

Experience of a Business Debtline caller during Covid-19
*Name has been changed.

A survey of IPSE members, undertaken at the beginning of the lockdown, found that almost all (91%) had real concerns about the impact of Covid-19 on their self-employed business, with 69% reporting a drop in demand for their services.[18] StepChange Debt Charity found that, while 29% of full time workers had experienced a negative financial impact from Covid-19, the incidence was far higher for self-employed people of whom 76% reported a detrimental impact on their finances.[19] Research from the IFS showed that nearly one million self-employed people worked in sectors that were seeing a significant fall in demand at the initial stages of the lockdown, with a quarter not having enough in savings to make up for a loss of three months' income. [20]

More recently, findings from the Money and Pensions Service have shown that self-employed people are far likelier than most other workforces to feel the financial impacts of the outbreak.[21]

All of this paints an image of a UK self-employed workforce that has been hard hit financially by Covid-19, with little in the way of a financial buffer to protect them against the initial impacts of the outbreak.

3.2. Falling behind on bills

Almost one in three self-employed people had fallen behind on one or more bills due to Covid-19.

The drop in income many self-employed people have experienced has unsurprisingly impacted upon many people's ability to pay their bills. Almost one in three (29%) people surveyed as part of this research had fallen behind on one or more household bill, business bill or credit commitments, as a direct result of the financial impact of the coronavirus outbreak.

The average amount of debt accrued due to Covid-19 was £3,444 per person.

On average, those who fell behind as a result of the outbreak owed £1,873 in household bills and £3,783 in business debt. The average amount of debt owed overall was £3,444.

Many self-employed people who had fallen into debt as a direct result of the outbreak were not in financial difficulty before - one in six (15%) had not experienced debt in the previous year and had newly fallen behind on their household or business bills as a direct result of Covid-19.

One in six people who had not experienced debt before Covid-19 had newly fallen behind on bills.

18. IPSE (April 2020) Coronavirus report

19. Step Change Debt Charity (June 2020) *Coronavirus and personal debt: a financial recovery strategy for households.*

20. IFS (April 2020) Income protection for the self-employed and employees during the coronavirus crisis

21. MaPS (June 2020) Impacts of Covid-19 on financial wellbeing.

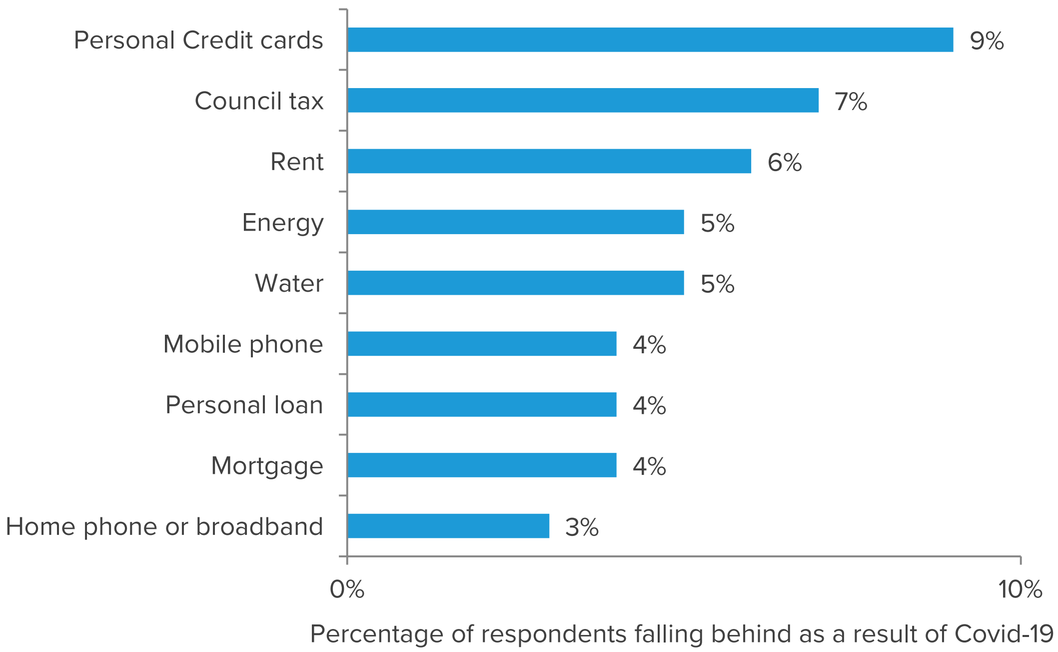
The impact is particularly pronounced when it comes to household bills - the proportion of self-employed people with arrears on households bills increased significantly from 17% before March 2020 to 25% in November 2020.

The most common debt type that people had accrued due to the outbreak was on personal credit cards, closely followed by council tax and rent. This mirrors what we are hearing from callers to Business Debtline – around 60% of people who contacted our service in October this year had credit card debt, while around two in five (39%) were experiencing problems with overdrafts, two thirds (36%) with personal loans and 20% having fallen behind on council tax.[22]

The proportion of self-employed people who had fallen behind on business bills or credit commitments also increased from 9% before the outbreak to 14% as a direct result of coronavirus. The most common bills or commitments that the people we surveyed were falling behind on were wages (4%), payments to suppliers (3%) and business VAT (3%).

Worryingly, when thinking ahead to the next 6-12 months, over a third (34%) of self-employed people in our sample expected to face difficulty in paying household bills in the next 6-12 months. Three in 10 (30%) expected to have difficulty meeting their business bills and costs - highlighting that, for many, their financial difficulties are far from over.

Falling behind with bills and debt repayments as a result of Covid-19



22. Business Debtline client records data, October 2020.

3.3. Household finances are bearing the brunt

The findings above highlight an important feature of how self-employed people experience financial shocks to their business. In many instances, despite the initial impact being on the business itself, or the individual's ability to trade, the outbreak put more pressure on their personal finances that that of their business. Business debts were far less common among our sample, with almost twice as many people falling behind on household bills as a direct result of the crisis, compared to business bills.

Almost twice as many self-employed people surveyed have fallen behind on household bills as a direct result of the crisis, compared to business bills

"We took a 15% drop in business income but working from home full time increases domestic utility bills."

Survey respondent

As our Business Debtline advisers hear day in, day out, many self-employed people often use personal bank accounts for managing their business as well as their personal finances – two in three Business Debtline callers surveyed prior to Covid-19 said that this was true of how they managed their business finances.[23] For some self-employed people and small business owners, this lack of separation can lead to finances becoming mixed and cash flow management and personal budgeting becoming a challenge as a result.[24]

"I haven't been able or eligible for any of help so I have had to use personal savings and help from family to keep my business going"

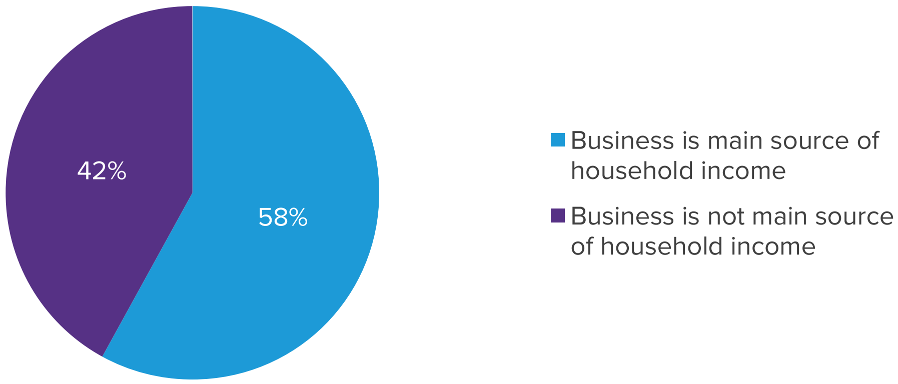
Survey respondent

Indeed, any impact on self-employed people's business income will inevitably impact their personal income. This is particularly likely to be the case for the six in 10 people surveyed who said their business income was their household's main source of income.

23. Money Advice Trust (November 2018) Taking care of business: Eight key challenges facing small business owners.

24. ibid

Business as main source of household income



Much has been made of the move to homeworking that many employed people have made as a result of the outbreak. However, for many self-employed people this was already a reality.

According to research from IPSE, 97% of self-employed people were already working from home for at least part of the time even before Covid-19 hit.[25] Our research into the impact of coronavirus on Business Debtline callers found that 60% were working from home, compared to just 23% who worked from business premises.[26]

Home working, even some of the time, can reduce the distinction between household and business bills, and may go some way to explaining why the ability to keep on top of household bills has been more affected amongst the people we surveyed as part of this research.

It is important, therefore, that any measures introduced to support self-employed people and business owners through the longer term impacts of this outbreak take into consideration this link between household and business finances.

Recommendations:

Our research shows that the personal and business finances of self-employed people cannot be viewed as independent of one another or existing in isolation – such a silo mentality risks decisions made about one impacting negatively on the other. Creditors and regulators need to be conscious that the impact of coronavirus on people's businesses may be just as likely to be felt in their personal finances as their business finances, and have a clear strategy for supporting their self-employed and small business owner customers.

In particular:

- **The FCA, Ofgem, Ofcom and Ofwat should issue specific guidance to firms on supporting self-employed people facing challenges due to fluctuations in income, reduced trade and the increased need to work from home.** For utility regulators, given the risk that disconnection can pose to the viability of businesses in these cases, it is vital that firms take a fair approach to collecting debts when self-employed people are struggling to repay.

25. IPSE (2019) Remote Working: Freedom and Flexibility for the self employed.

26. Money Advice Trust (August 2020) At the business end: A spotlight briefing on the impact of Covid-19 on Business Debtline clients.

- **Creditors and essential services providers should consider self-employed people struggling with their bills to be a particularly vulnerable group** due to the impact of the Covid-19 outbreak, and should ensure they are offered specific forbearance and flexibility as appropriate for their circumstances.
- **More broadly, regulators should consider introducing 'lived experience' panels** of people in self-employment and small business owners, to build understanding of their unique needs and ensure these are considered when developing future policy measures.

3.4. Late payments an exacerbating factor

The issue of late payments, and how they impact the finances of self-employed people, has long been an area of widespread concern, and is now the subject of a Government consultation looking into how the problem can be tackled.[27]

In 2018 the Money Advice Trust's 'Taking care of business' research [28] explored some of the key challenges facing those who contact our Business Debtline service. Our research revealed that, pre Covid-19, one of the greatest challenges was dealing with late payments and that this was a significant driver of financial difficulty for those who experienced it. Almost half (45%) of Business Debtline clients surveyed reported that they had experienced problems with late payments in the past.

27. BEIS (October 2020) Press release: Government to protect small businesses with action on late payments.

28. Money Advice Trust (November 2018) Taking care of business

29. Money Advice Trust (February 2020) Business as usual

30. FSB (June 2020) Late Again: How the coronavirus pandemic is affecting payment terms for small firms.

Our more recent 'Business as usual' research, which surveyed Business Debtline clients who experienced late payments, found that for 62% this was a regular occurrence and of these 75% reported a negative impact on the viability of their business. Almost all (87%) agreed that late payments had a negative impact on their wellbeing.[29]

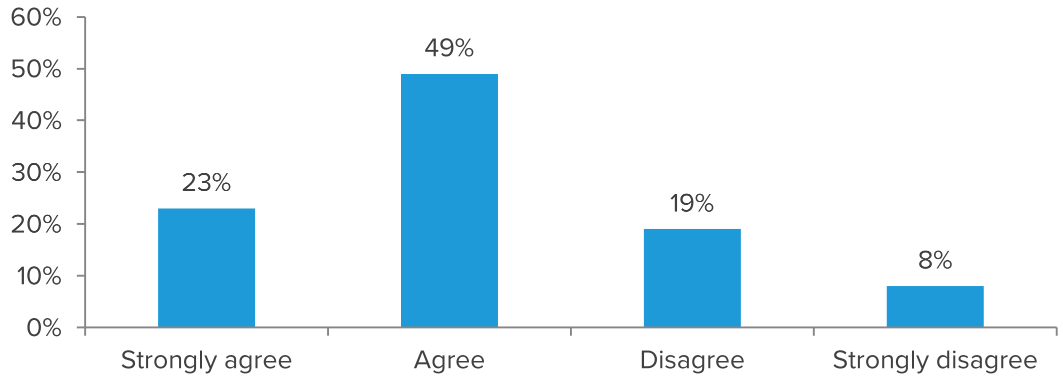
According to the Federation of Small Businesses the issue has worsened since the Covid-19 outbreak[30], and this was certainly the case for many of the self-employed people within our sample. Almost three quarters (72%) of people surveyed said that late payments were exacerbating the negative financial impacts of Covid-19.

More than a third of self-employed people surveyed said they have experienced an increase in late payments since the start of the outbreak.

Over a third (38%) said their business has experienced an increase in late payments since the Coronavirus outbreak began, with almost 59% reporting that late payments have a negative impact on their ability to pay household bills. Similarly, almost two thirds (61%) reported that late payments have had a negative impact on their ability to pay their business costs.

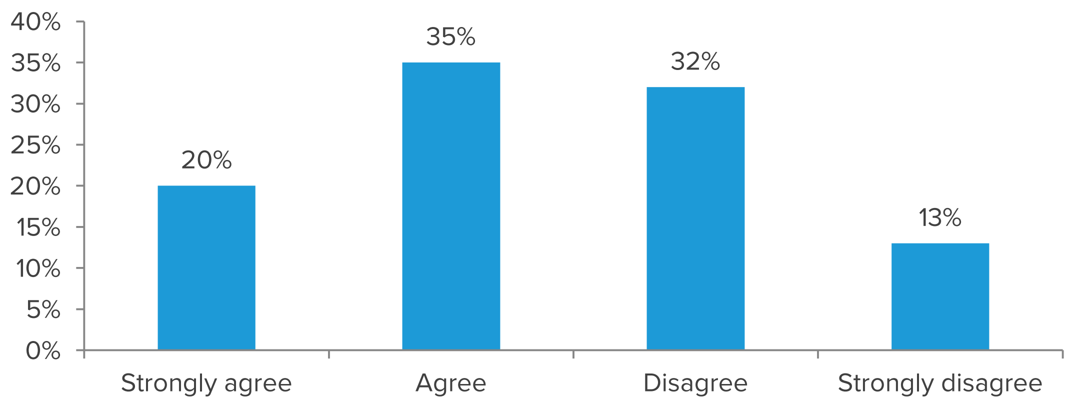
Almost three quarters (72%) reported that late payments are making the financial problems caused by Coronavirus worse.

Late payments are making the financial problems caused by coronavirus worse



It is perhaps not unexpected then that just over half (55%) of the people we surveyed are worried that late payments will make it harder for their business to recover from the impact of the outbreak in the longer term.

Late payments will make it harder for business to recover from the impact of Covid-19



80% of people surveyed agreed that the Government needs to do more to tackle the issue of late payments.

It's clear from our findings that late payments can have a compounding impact on businesses already subject to financial shocks, and the majority of respondents held the view that not enough is being done at a national level to combat the problem - eight in 10 (80%) agreed or strongly agreed that the Government must do more to tackle the issue.

Recommendations:

We have long been calling for more government action to tackle the issue of late payments and the impact they have on small businesses and self-employed people. As this research shows, the outbreak of Covid-19 has exacerbated the problem for many, and if steps aren't taken to deal with the problem it is likely to go on to have a real negative impact on the recovery of many businesses in the wake of this crisis. We therefore recommend that:

- **The Government should ensure that proposed changes to the Prompt Payment Code are matched by increased powers to the Small Business Commissioner** to act in cases of non-compliance, as is currently subject to government consultation.[31] This should include the ability to impose penalties for non-compliance - including the introduction of fines - the power to investigate cases of bad practice and compel companies to share information about payment practices, and the power to order firms to pay companies subject to late payments.

As late payments can also have a domino effect on the supply chain it is also vital to ensure that small businesses pay other small businesses on time. As our own research has shown, there does also appear to be a worrying trend toward late payments being used as a standard business practice – 59% of small business owners we spoke to suspected this to be the case.[32] We therefore also recommend that:

- **The Government should go further than current proposals, and expand the Small Business Commissioner's remit to include powers to act in cases where small businesses subject other small businesses to late payments.** This is important to reflect the impact that late payments can have right through the whole supply chain and to tackle the issue of late payments being used as a standard business practice.

In light of the recent outbreak of Covid-19 and its effects on small businesses and self-employed people, the Government should look at implementing these improvements at the earliest opportunity to support their recovery and the recovery of the economy as a whole.

3.5 Wellbeing put at risk

The impact of Covid-19 on the wellbeing of people across the UK has been widely recognised[33], and there has been some evidence that the self-employed population is being particularly hard hit by the compounding effects of the outbreak.[34] This effect was also felt by many of the people we surveyed as part of this research.

More than half of the people we surveyed said that the financial worries caused by Covid-19 had a negative impact on their wellbeing and mental health.

31. Department for Business, Energy and Industrial Strategy (1 October 2020) Press release: Government to protect small businesses with action on late payments

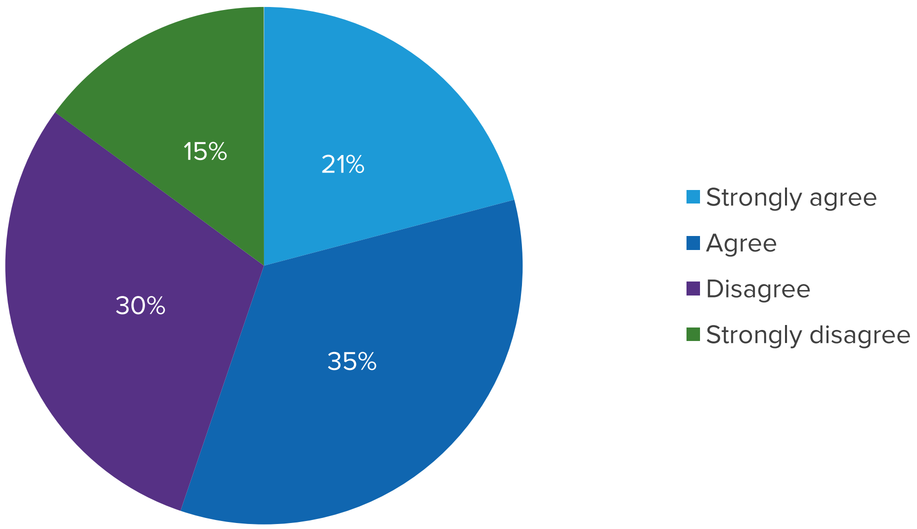
32. Money Advice Trust (February 2020) Business as usual: A spotlight briefing on late payments and their impact on small business owners in financial difficulty.

33. ONS (June 2020) Personal and economic well-being in Great Britain.

34. IPSE (September 2020) How coronavirus has affected the mental health of the UK's self-employed.

The majority either agreed or strongly agreed that they have “felt under a lot of stress since the outbreak of Covid-19”, and more than half (56%) said financial worries caused by the outbreak had a negative impact on their wellbeing and mental health.

Financial worries caused by Covid-19 have had a negative impact on wellbeing and mental health.



In many cases the impact was severe enough to affect their sleep patterns – 43% agreed or strongly agreed that they had been regularly losing sleep due to the impact of Covid-19 on their business.

In other cases, the impact of the outbreak had been affecting their personal relationships– 39% agreed or strongly agreed that this was the case.

When we consider that many of the people within our sample had fallen behind on bills as a result of the crisis, it is perhaps not surprising that the impact of the outbreak is not just felt in their finances. This cumulative impact may be seen as especially concerning when respondents’ views on the longer term recovery of their businesses are taken into consideration – something we explore in more detail further on.

4. Access to support

In this section we explore the different types of support made available through government, regulators and creditors. However, it is vital to note that in practice support schemes do not work independently from one another for the people who are able to access them. Indeed, many interact and overlap and a significant number are in the form of payment breaks or loans that will require repayment further down the line. It is important, therefore, for Government, regulators and creditors to work together to ensure self-employed people, many of whom as we have seen have been heavily financially impacted by Covid-19, are not faced with a financial cliff edge as and when repayments begin.

4.1. Support from government

Shortly after the initial lockdown period came into force, the UK Government announced a package of emergency support measures for self-employed people and small business owners, which has grown and been adapted as the situation has developed.

From the introduction of the Job Retention Scheme and the Business Interruption Loan, to the Bounce Back Loan and the flag ship Self-Employment Income Support Scheme (SEISS), there has been an unprecedented and welcome raft of measures that have provided relief to many self-employed people and small business owners during this crisis. This was certainly the case for many of those we surveyed who had accessed help through these schemes to help keep them afloat during what has become a very challenging time for a significant cohort of the self-employed workforce.

The support measures from government vary and have different caveats for eligibility - some have been made available in the form of direct grants while others are government-backed loans. This distinction is important, as the loans do require repayment at some point in the future, though repayment options vary for each.

48% of people surveyed received some form of government support to help them weather the financial impacts of Covid-19.

Within our sample there was an almost 50/50 split across all demographics between those who did receive some kind of support (48%) from one or more of the government schemes and those who did not (52%). Levels of uptake differ between the different support measures available, as highlighted in the table on the next page.

Form of support from government	Proportion of respondents who received this support
Grant from the Self-Employment Income Support Scheme	25%
Universal Credit	14%
Bounce Back business loan	7%
Help to pay employees' wages from the Coronavirus Job Retention Scheme	9%
A local authority business grant	7%
Business rates relief	7%
Employment Support Allowance	6%
Coronavirus Business Interruption Loan	4%
Loan from the Coronavirus Future Fund	2%
A start-up grant (Wales only)*	2%
A grant from the Newly Self-Employed Hardship Fund (Scotland only)*	1%

* This support is only available to people living in Wales or Scotland, so the totals are reduced.

While it is likely that many self-employed people surveyed were not eligible or did not feel the need to apply for some of these schemes, worryingly a significant proportion also said they were unaware the support was actually there at all. This was most notably the case for the Coronavirus Future Fund (29% were not aware of the scheme), but worryingly, 12% of people were not even aware of the Self-Employment Income Support Scheme, arguably the most widely publicised support scheme available.

It may be the case that the ever-changing policy landscape and adaptation of the Covid-19 response left some people confused about the help that has been made available. However, whatever the reason, there are clear implications here for the Government around improving communications when it comes to ensuring self-employed people are aware of the help available to them when their business is struggling.

4.2. The Self-Employment Income Support Scheme

On March 26th, following measures of support for employed workers and businesses across the UK, the Chancellor announced targeted support through the Self-Employment Income Support Scheme (SEISS),[35] the Government's flagship policy to help self-employed people weather the impacts of the outbreak.

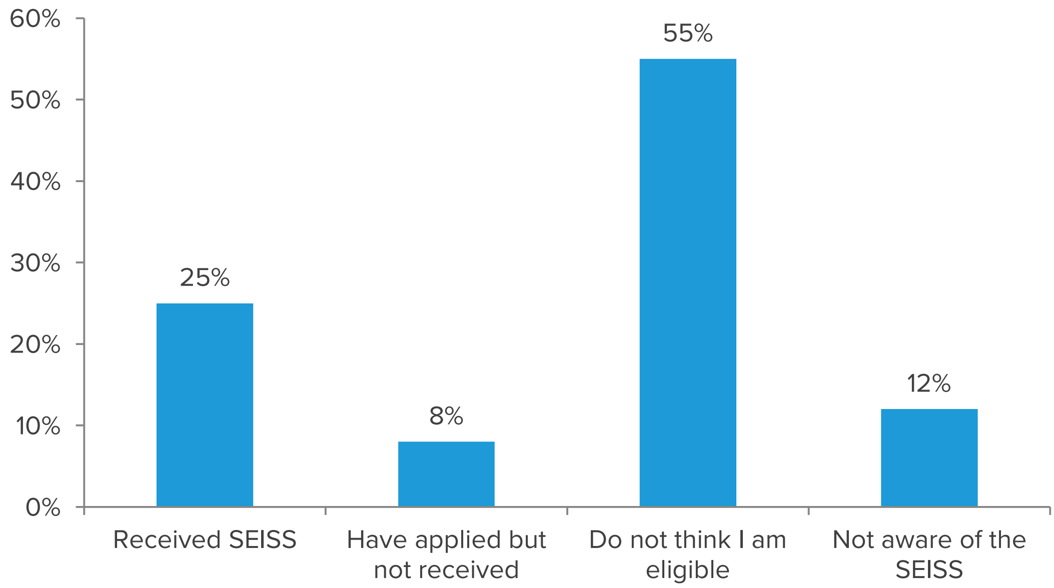
Whilst the three month wait for the initial payment was a challenge for some who had seen their income drop overnight, the scheme has nevertheless provided an unprecedented level of support to those who could access it and was a welcome acknowledgement of the hardship the outbreak was causing for much of the self-employed workforce.

Designed to match the help made available to furloughed workers (though some self-employed people will be better off under the scheme)[36], the SEISS initially offered a taxable grant worth 80% of average monthly profits calculated over the previous three years of up to £2,500 a month. As of October 2020, almost 2.7m people had received an SEISS grant, out of around 3.4m eligible self-employed people.[37]

As the virus has continued to disrupt working lives, the Government have extended the SEISS grant in line with extensions to the furlough scheme for employees.

The SEISS was by far the most widely accessed of the government support measures amongst the people we surveyed – a third (33%) applied for help in this form, and a quarter (25%) received it.

Access to Self-Employment Income Support Scheme (SEISS)



35. HM Treasury (26 March 2020) Chancellor's statement on coronavirus (Covid-19)

36. IFS (April 2020) Income protection for the self-employed and employees during the coronavirus crisis.

37. HM Revenue and Customs (October 2020) *Self-Employment Income Support Scheme statistics.*

For those who accessed the SEISS, or other forms of government support, the experience was largely positive.

"To be honest, the help from the Government has certainly been a good thing"

"The government have done a good job in the circumstances and made the HMRC site very easy to navigate. I think it is hard for a good majority of small businesses financially."

"The government has been supportive, especially on the .Gov website that provides a lot of information about the money available to self-employed people."

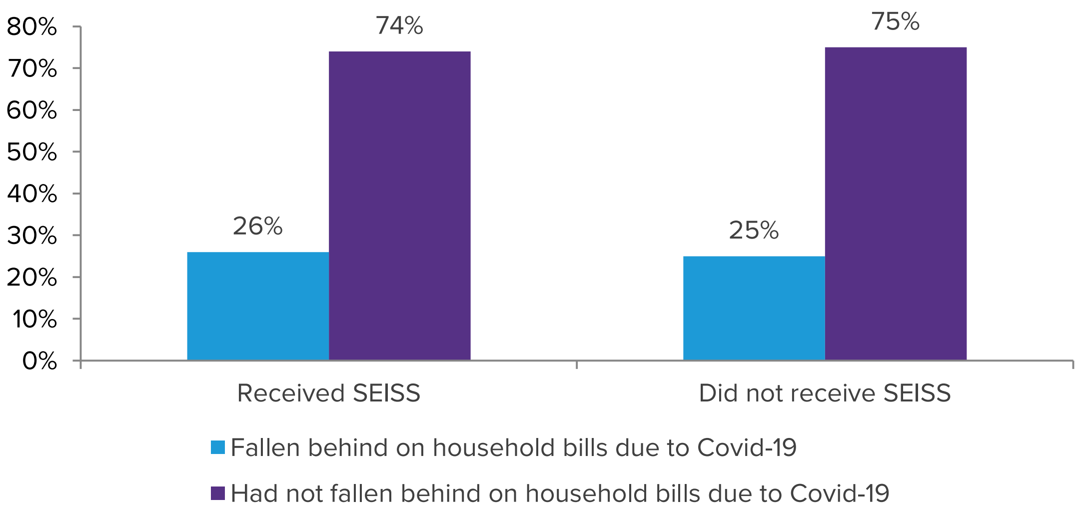
"Myself, I feel very supported – as a self-employed person."

Quotes taken from survey responses on experiences of government support measures.

Unsurprisingly, those who received the SEISS were more likely to report that the Government had done a good job of providing support to self-employed people, with 68% agreeing this was the case.

However, as we explore in the following section, many self-employed people have been unable to access the scheme, leaving them in difficulty. In addition, even for those who did receive the SEISS, it has not always been enough to keep them out of debt. One in four (26%) people who received help through the scheme still fell behind on household bills and personal credit commitments as a direct result of the coronavirus outbreak.

Access to SEISS and whether respondents had fallen behind on household bills as a direct result of Covid-19.



In addition, one in six (16%) of those who had received the SEISS had fallen behind on business bills as a result of Covid-19.

While the SEISS represented much needed and welcome support for self-employed people, these findings suggest that, for some people, the SEISS grant alone is not enough to prevent financial difficulty. It seems likely that those who had fallen into arrears as a result of the outbreak will still be struggling to keep their head above water as the impacts of a second lockdown are felt.

4.3 Falling through the cracks

Many self-employed people were not able to access the SEISS as a result of the eligibility criteria, which excluded owner/directors of limited companies, newly self-employed people who began trading after 5 April 2019 and those with trading profits over £50,000.

The exclusion of these groups, most notably owner/directors of limited companies and the newly self-employed has been a topic of much contention since the scheme was launched. Almost one in five (19%) people within our sample identified as either owner/directors or as a limited company business type, and 11% had been self-employed for less than a year - so fell within at least one of these excluded groups.

The government's own figures show that approximately 1.6 million self-employed people have been excluded from SEISS due to the eligibility criteria[38]. However, the Institute for Fiscal Studies estimated that this figure could be higher with around 2 million people with some self-employment income without access to SEISS. The IFS also estimated that a further 2 million owner/directors who receive the majority of their salary from dividend payments would only have access to support through the coronavirus Job Retention Scheme that would pay minimally due to their low salary income.[39]

38. HMRC (26 November 2020) Self-Employment Income Support Scheme Statistics: October 2020

39. Institute for Fiscal Studies (April 2020) Fast choices by Government provide generous income support to most workers, but leave some with nothing and others with too much.

"I was unable to get help because the income I receive from my company is through dividends. Even though my income was severely affected by the situation, I was not eligible to receive any help except through a loan which, in my opinion, would make recovery harder in the long term as I would need to repay that loan. My partner had lost his job just before lockdown so my income is the sole income in the family yet still I received no help."

"I didn't qualify for any of the support offered to self-employed people because I hadn't been in business long enough (was yet to submit my first tax return). This was very disappointing. I feel that this ultimately led to me needing to cease trading as I did not have the money to feel confident with re-launching the business once I was able to open again."

"The negative impact on the economy from the Covid-19 virus has put a significant strain on company budgets. That, coupled with business confidence going through the floor has removed almost all opportunities for freelance IT contractors like myself who operate through a limited company. Without a contract I have no income and I don't believe I am eligible for any government support package?"

"I'm self-employed through my limited company. I take the minimum salary and the rest of my salary as dividend because I cannot predict how much I will earn in a year. My business revenue fluctuates from month to month. So I am using my savings to survive."

"To put it simply, if you fall through the cracks, there is little to no support. I was seriously ill around 12 months ago. I received little to no support during this time from the government despite being declared unfit for work by doctors and surgeons and undergoing no less than four surgeries. As a direct result of loss of income suffered during this illness, my lack of earnings made me ineligible to the SEISS scheme. This caused me to undergo a second period with no help from the government."

"Absolutely terrible. As directors of our own business we have definitely fallen through the cracks, and it's heart-breaking."

Quotes taken from survey responses on experiences of government support measures.

The issue of payment through dividends and the amount of support that was afforded to self-employed business owners affected by the outbreak is one that came up time and again in the responses to our poll. As the income replacement provide by the Coronavirus Job Retention Scheme is based on the income received through PAYE, owner/directors who pay themselves predominantly through dividends can only access a small amount to cover their income loss. They are also set at a double disadvantage due to the fact that they cannot work if they receive help under the CJRS, unlike if they were able to access SEISS. This is not only potentially detrimental due to the loss in income that many will experience as a result, but also to the future viability of their business. For those whose businesses are badly affected by the outbreak, this leaves them with a difficult choice between working to save their business and receiving the support they need from government.

75% of people within our sample from low income households did not receive help under the SEISS.

The majority of self-employed people we surveyed who had received help under one or more of the government support schemes were from households earning more than £20,000. However, when we consider the SEISS in particular, 75% of those from low income households [40] did not receive help in this way. While it may be the case that some may not have applied for SEISS, it is worrying that such a high proportion of those within our sample with income at or below the low income threshold had not received help in this way.

For many self-employed people, the impact of not being able to access the SEISS, or other forms of government support, has been significant. A quarter (25%) of those who had not received the SEISS had already fallen behind on household bills or credit commitments, and 16% had built up arrears on business bills or commitments. There is a risk that these figures will rise further as the impact of restrictions on their businesses continue to be felt.

40. According to the UK Government, “a household is in persistent low income if it has less than 60% of the UK’s median (average) income for 3 out of 4 years - this was £28,000 for a couple with no children in 2016-2017”, Persistent low income (September 2019).

Louise* and her husband were running a freelance graphic design business based in London before her husband was diagnosed with cancer three years ago and had to undergo extensive treatment.

He is now in remission and last year they started to trade again and things were picking up. Then Covid-19 struck and trade dropped off so it now feels like they are just ''filling the holes in a sinking ship.''

Because they had to stop trading they aren't eligible for the Self-Employment Income Support Scheme and their situation feels precarious. They contacted Business Debtline as they had Council Tax arrears but now other debts are starting to mount. They are relying on creditor forbearance for both their mortgage and council tax payments but don't know what will happen when this comes to an end.

Louise is also worried about the impact this will have on her husband's health as ''neither of them are strangers to mental health problems.'' She feels there has been a lack of help from the Government support package which she describes as ''muddling'' for people like her and her husband and she feels they have been forgotten.

Experience of a Business Debtline caller during Covid-19
*Name has been changed.

This impact hasn't just been felt in their finances. Three in five (61%) self-employed people who did not receive the SEISS said they had felt under a lot of stress since the outbreak of Covid-19. Just over half (54%) said the financial worries caused by Covid-19 had a negative impact on their mental health or wellbeing, with 41% saying they had been regularly losing sleep as a result of the impact of Covid-19 on their business. A similar number (38%) said the financial worries caused by Covid-19 had put a strain on their personal relationships.

Unsurprisingly, those who have not been able to access the SEISS were much more negative about the Government's handling of support for businesses. Only 45% thought the Government had done a good job of providing support to self-employed people and small business owners who have been impacted by coronavirus. This compares much less favourably to the 68% of those who had received the SEISS, who agreed with the same statement.

	Proportion of respondents who did not receive SEISS grant, who agreed or strongly agreed with the statement
I have felt under a lot of stress since the outbreak of Covid-19.	61%
Financial worries caused by Covid-19 have had a negative impact on my wellbeing and mental health.	54%
I have been regularly losing sleep due to the impact of Covid-19 on my business.	41%
Financial worries caused by Covid-19 have put a strain on my personal relationships.	38%
The Government has done a good job of providing support to self-employed people and small business owners who have been impacted by coronavirus	45%

The exclusion of these groups becomes even more pertinent when access to the SEISS is considered alongside respondents' predictions for the need for debt advice following the Covid-19 outbreak. Of those who anticipate the need for debt advice in the next 12 months, three times as many did not receive the SEISS (77%) compared to those who did (23%).

Of those who anticipate the need for debt advice in the next 12 months, three times as many did not receive the SEISS (77%) compared to those who did (23%).

The issue of ineligibility for the SEISS has been the subject of much attention. The House of Commons Treasury Select Committee has urged the Government to undertake a review of the SEISS eligibility criteria to extend its reach to those without access, saying the Government must:

"...adapt its existing schemes or develop new support mechanisms to help these people if it is to completely fulfil its promise of doing whatever it takes to protect people and businesses from the impact of the pandemic. The Chancellor has indicated that he may, in future, reform the tax arrangements for self-employed people, in part justifying this on the basis of the Government's fair treatment now of those self-employed people affected by the crisis. Any lack of fairness in these support schemes may undermine this." [41]

Indeed, the difficulties being faced by some of those excluded from the SEISS, led the Scottish Government to set up a Newly Self-employed Hardship Fund (NSEHF). Subject to meeting the eligibility criteria, the fund – which is managed by local authorities - gives grants of £2,000 to people who became self-employed after 5 April 2019 and who are therefore ineligible for the SEISS. Latest figures show that, as of 6th August this year, 8,002 people had applied to the fund, and 5,602 of these had received grants, totalling over £11.2 million.[42]

Aside from the requirement to be newly self-employed and have no access to recourse from any other coronavirus related business support schemes at time of application, the eligibility criteria for the fund is relatively similar to the SEISS, in that it continues to exclude director/owners of limited companies. Nevertheless, it will have provided some support to self-employed people in Scotland who cannot access it elsewhere.

Recommendations:

While the SEISS was a welcome addition to the government's raft of support measures for many in the early days of the outbreak, additional action is urgently needed to help the self-employed people and small business owners excluded from the scheme who are still struggling with the financial consequences of Covid-19.

This includes the newly self-employed, whose businesses may be less established and perhaps not so resilient to the financial shocks of Covid-19. It also includes owner/directors of limited companies who face the difficult choice of stopping work altogether to receive a fraction of their income from the Coronavirus Job Retention Scheme or to keep working to save their business and have no access to either scheme.

We therefore recommend that:

- **The Government introduce a discretionary grant scheme specifically to support those excluded from the SEISS who are still struggling with the financial consequences of Covid-19.** This would help mitigate the loss of income many have experienced and help get their business back on track.

41. Treasury Select Committee (15 June 2020) Economic impact of coronavirus: Gaps in support

42. Scottish Government (6 August 2020) Coronavirus (COVID-19): hardship and resilience funds statistics

The Government has previously pointed to practical challenges around the need to deliver the scheme to a large number of people at speed, while reducing the risk of fraud, as reasons for relying on tax return data – which led to the exclusion of some groups from the SEISS.

However, a discretionary grant scheme would be able to overcome these barriers by requiring each applicant to clearly evidence their eligibility through routes other than their tax return. The scheme could also be delivered through utilising and adapting the existing infrastructure within HMRC currently set up to deliver the SEISS, now that the immediate pressure of setting up and delivering the scheme has subsided.

4.4. Fairer access to Universal Credit:

For self-employed people ineligible for the SEISS, or other specific coronavirus financial measures, Universal Credit may be the only form of support available to help them deal with the impact of coronavirus on their business and income.

However, the 'Minimum Income Floor' rule within Universal Credit can limit the amount of support self-employed people receive, by assuming they are earning a certain level of income from their business regardless of whether this is the case in reality.

With many self-employed people seeing their trade hit significantly by coronavirus, it was therefore welcome that, at the same time the SEISS was introduced, the Chancellor also announced a suspension of the Minimum Income Floor in Universal Credit.[43] Initially this was to last until November but was then extended until April 2021. The payments themselves were also increased by £20 per week for the period of a year (to March 2021) to provide applicants with more support.[44]

Following the implementation of lockdown measures in March 2020, new claims for Universal Credit rose exponentially and, as of October 2020, 5.7 million people were receiving help from through Universal Credit payments – a 90% increase since March 2020. [45]

According to research from IPSE, the increase in claims is even higher amongst those in self-employment – the organisation report a 341% increase in claims from the self-employed sector.[46] One in six (15%) of self-employed people within our sample had received Universal Credit as a result of Covid-19, with a further 6% saying they had applied for it but not yet received it. It was the second most common form of government support received, behind the SEISS.

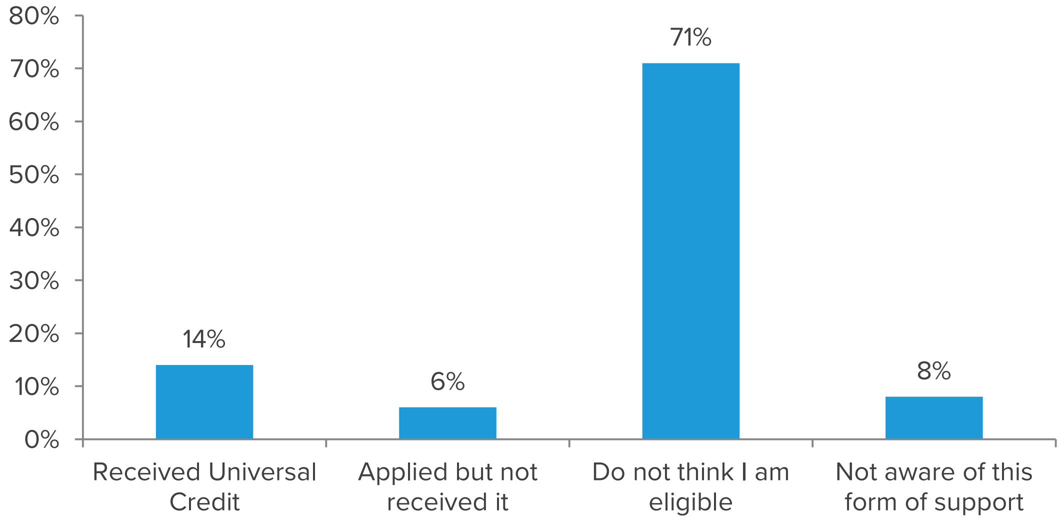
43. HM Treasury (26 March 2020) Chancellor's statement on coronavirus (Covid-19)

44. HM Treasury (20 March) The Chancellor Rishi Sunak provides an updated statement on Coronavirus

45. Department for Work and Pensions (10 November 2020) Universal Credit Statistics

46. IPSE (2 November 2020) 341% increase in self-employed on Universal Credit shows "fallback lifeline" must not be taken away

Access to Universal Credit since the outbreak of Covid-19



In fact, many people said that it was the only form of support they were able to access from the Government due to lack of eligibility for other schemes. Within our research, those who were newly self-employed (within the last two years) were much more likely to have claimed Universal Credit - with almost a quarter (23%) saying they had claimed it, compared to 16% of those who had been self-employed for between two to five years, and 10% of those who had been self-employed for five years or more.

"I was self-employed for only 10 months before the outbreak of Covid-19 and because I'm a freelance/mobile stylist I don't have premises I wasn't entitled to any help other than to claim Universal Credit as a single parent for help with rent and council tax."

"All we were eligible for was Universal Credit"

"There was support available but didn't really apply to me apart from Universal Credit which has helped me pay my bills when my work stopped completely."

"I wasn't eligible for anything apart from approximately £104 a month universal credit which hasn't been enough. I'm going to probably have to close my business down due to lack of business coming in."

Quotes taken from survey responses on experiences of government support measures.

Universal Credit is a vital lifeline for many people. The £20 uplift has undoubtedly made some difference to those who receive it, and the suspension of the Minimum Income Floor means self-employed people are rightfully receiving benefit support based on their actual incomes. However, it was also not uncommon for the people we surveyed who were receiving Universal Credit to raise concerns around the affordability of making ends meet whilst it is their only income stream. Almost half (47%) of self-employed people receiving Universal Credit in our sample were behind on at least one household bill or credit commitment. This compares to 21% amongst those not receiving Universal Credit.

> Almost half (47%) of self-employed people receiving Universal Credit were behind on at least one household bill or personal credit commitment.

With many people struggling even on the temporary higher rate of Universal Credit, we have concerns around the Government's plans to remove the uplift in April 2021, concerns that are shared by others in the debt advice sector.[47]

With the suspension of the Minimum Income Floor now set to end at the same time,[48] there is a real risk that self-employed people will effectively see a cut to their benefit at a time when they are still dealing with the longer term impacts of Covid-19 on their finances. As our research shows, it is likely it will take some self-employed people and their businesses far longer than April next year to recover financially from this crisis.

47. Citizens Advice (13 October 2020) Removing benefit uplift will leave people unable to cover basics, say Citizens Advice

48. The Minimum Income Floor was originally set to end on 13th November. For more information see Department for Work and Pensions (3 November 2020) Press release: Government extends extra welfare support for self-employed for further six months

49. Money Advice Trust (20 April 2020) Closing the gaps: Additional steps to support household finances through Covid-19

Recommendations:

For the self-employed people impacted by this outbreak who have not been able to access help under the SEISS, the lifting of the Minimum Income Floor has undoubtedly provided a financial lifeline. Coupled with the £20 uplift to payments under Universal Credit, many in our sample have been able to recover at least some of their lost income through the benefit, although many are still struggling to get by on the amount they are receiving.

Self-employed people need timely access to sufficient support under Universal Credit, and it is vital that the Government acts to deliver this, particularly as many more self-employed people may come to rely on this as their business continues to be hit, and once the SEISS ends.

In addition, and as we highlighted at the start of the outbreak,[49] the five week wait that remains for initial payments under Universal Credit means many are left having to wait for this lifeline to kick in whilst their incomes rapidly dwindle and the bills stack up.

We therefore recommend that:

- **The Department for Work and Pensions should extend the suspension of the Minimum Income Floor, beyond April 2021, with a view to reforming the policy in the longer term.** This will ensure that those self-employed people struggling with the longer term impacts of Covid-19, and those who still need financial help beyond the end of the SEISS, have access to this vital lifeline on the same basis as their employed counterparts.

- **The Government should commit to retaining the extra £20 a week increase in Universal Credit payments beyond March 2021** to provide continued certainty of financial support to people who have seen their income fall due to the outbreak, and are still struggling with the longer term financial impacts.
- **The Government should act to end the five-week wait for Universal Credit payments**, to get help fast to the huge numbers of people falling back on the benefit system.

During this challenging time, it is vital that Universal Credit provides the maximum possible support to people whose incomes have been badly hit by the outbreak. With many people on Universal Credit experiencing debt, there is a real risk that current rules around deductions from benefits to repay debts will mean people are left without vital financial support. To tackle this:

- **The Department for Work and Pensions should temporarily pause the recovery of debts from Universal Credit, where this is unaffordable for the individual**. This should be based on the completion of a Standard Financial Statement – an agreed, objective tool for assessing affordability, run by the Money and Pensions Service – and there should be a clearly advertised and easily accessible route through which people can request this pause.

4.5. Government-backed loans

Latest figures show that of 20th October £62 billion has been provided to businesses through the three main government backed loan schemes, the Coronavirus Business Interruption Loan, the Coronavirus Larger Business Interruption Loan and the Bounce Back Loan. The Bounce Back Loan scheme has provided by far the most support, accounting for 95% of the loans made and 65% of the funds released.[50]

One in 10 self-employed people surveyed received support through a government-backed loan scheme.

This trend was mirrored in our findings - of all the people we surveyed, one in 10 (10%) received help through a business loan backed by the government as a result of the outbreak. However, the most popular government-backed loan was the Bounce Back Loan, of which 7% of people had accessed.

Aimed at supporting small and medium-sized businesses, the loan provides between £2,000 and £50,000, up to 25% of business turnover. The government guarantees 100% of the loan, which is provided by commercial lenders, and it is interest-free for the first year with 2.5% interest added each year after until full repayment.[51] Repayments are expected to begin 12 months after the loan was drawn down.

50. House of Commons Library Briefing (16 November 2020) Coronavirus: Business loan schemes.

51. Department for Business, Energy and Industrial Strategy (27 April 2020) Apply for a coronavirus Bounce Back Loan

The requirement for banks to make credit and affordability checks has been removed – with applicants instead being able to self-certify their application.[52]

However, like all of the government backed loans, failure to repay the debt in full can impact the borrower's credit score with clear implications for future access to credit.

29% of people we surveyed were not confident they would be able to repay their loans.

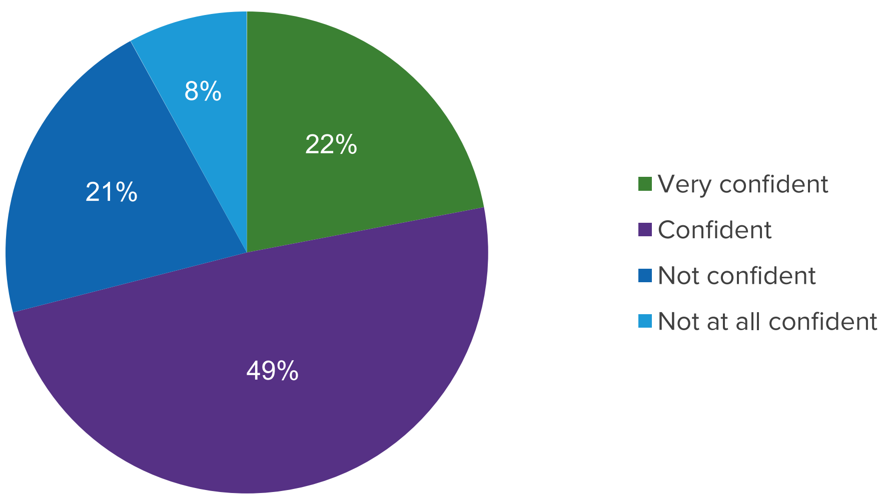
In October, the National Audit Office released its findings from an investigation into the scheme. Perhaps most troubling were the concerns highlighted around the removal of credit and affordability checks and the implications this has for repayment of the loan:

"As a result of credit and fraud risks, the Department and the Bank's preliminary central estimate is that 35% to 60% of borrowers may default on the loans but the estimate is highly uncertain. Government's default estimates at Scheme launch ranged between 30% and 75%. The latest estimates, including those by the Bank and the Office for Budget Responsibility, have widened to between 15% and 80% depending on the UK's economic performance."[53]

Repayment was also a concern borne out in our research. Of the people who accessed one or more of the government-backed coronavirus loans, only 71% were confident that they will be able to repay within the requirements set out on application.

Worryingly more than a quarter (29%) said that they were either not confident or not at all confident that they will be able to repay the loan in full when it comes to meeting repayment requirements.

Confidence in ability to repay government backed loans



52. National Audit Office (7 October 2020) Investigation into the Bounce Back Loan Scheme

53. National Audit Office (7 October 2020) Investigation into the Bounce Back Loan Scheme, Pg.11.

The Chancellor has introduced welcome flexibility in the form of new repayment rules through the 'Pay as You Grow' scheme. This will allow businesses to repay over a longer time period of ten years, as well as the option to move temporarily to interest-only payments for six months, or to pause repayments entirely for up to six months (although this can only be done once).[54]

However, even with this flexibility, our research suggests that there will likely still be people who are unable to repay due to the impact the outbreak continues to have on their business. Despite the government guarantee, lenders will still be expected to pursue the loans and this could have a significant impact on people's businesses, finances and health if not done fairly. While the Government has stated that guidance to lenders of government-backed loans regarding collection is forthcoming, this must include clarity over what will happen in cases where business owners and self-employed people struggle to make repayments. With the financial uncertainty that so many people still face, people who take out these loans need to be made aware of what options are available to them when repayment is unaffordable.

Recommendations

In order to ensure that business owners and self-employed people have the best possible chance of recovery from this crisis, it is vital that any support they have accessed from government does not put them at a future disadvantage. The way loans are collected will be critical in preventing self-employed people and small business owners from experiencing further hardship.

We therefore recommend that:

- **The Government should actively explore the use of a Student Loan-style repayment scheme for small businesses who have taken government-backed loans they cannot afford to repay** – with repayments linked to levels of future business income.
- **As part of the guidance being issued to lenders, HM Treasury and the British Business Bank should provide clarity on the steps that will be taken in cases where business owners cannot meet their repayments**, ensuring that a fair and affordable approach is taken to recovery. Due to the developing Covid-19 situation, and the further uncertainty that many self-employed people and small businesses face as a result, this guidance should also include the option for firms to renegotiate repayment plans with their lenders if their financial situation worsens again as a result of the on-going crisis, as well as details on when and how lenders should refer people to debt advice..

54. HM Treasury (24 September 2020) Chancellor outlines Winter Economy Plan

- **The Government should work with the British Business Bank and lenders to ensure that any implications for businesses defaulting on loans, or ultimately having to access the government guarantee – such as the impact on credit files - is proportionate** and does not unduly harm the individual's future business or financial prospects, given the unique situation many businesses have faced due to the coronavirus outbreak.

Any potential future financial support made available in the form of loans to support self-employed people and small business owners through the longer term impacts of Covid-19 should not forgo the affordability checks that are vital to ensure the best possible chance of repayment.

4.6. Support from creditors:

Since the start of the outbreak regulators, creditors and government have been swift to respond in order to ensure that people struggling with their bills and credit commitments as a result of Covid-19 are able to access support and forbearance during this period.[55]

Government measures included a deferral of VAT and National Insurance payments owed to HMRC for a year for business owners who wish to do so, increased funds to local councils to support those struggling to make council tax payments as a result of the crisis, and the implementation of a freeze on repossessions for hard hit renters.

The FCA was also quick to introduce revised guidance to creditors in supporting customers struggling with mortgages or consumer credit products, guidance that has been adapted as the situation has developed.[56]

This has included, amongst other measures, extending payment holidays to struggling mortgage holders, implementing the option of a payment break on credit cards and personal loans, and requiring lenders to offer interest free overdrafts of up to £500 on personal accounts. However, these measures were not extended to business loans and products, meaning self-employed people have not had the same right to these across the various products they may hold, having to rely on lender discretion to get the help they need.

Meanwhile, Ofgem introduced a ban on disconnection for failure to meet energy payments, among other support, whilst Ofwat and Ofcom also brought out guidance for providers to encourage providers to support customers struggling to pay their bills.

Overall, 33% of respondents received some form of creditor support on their personal bills and credit commitments.

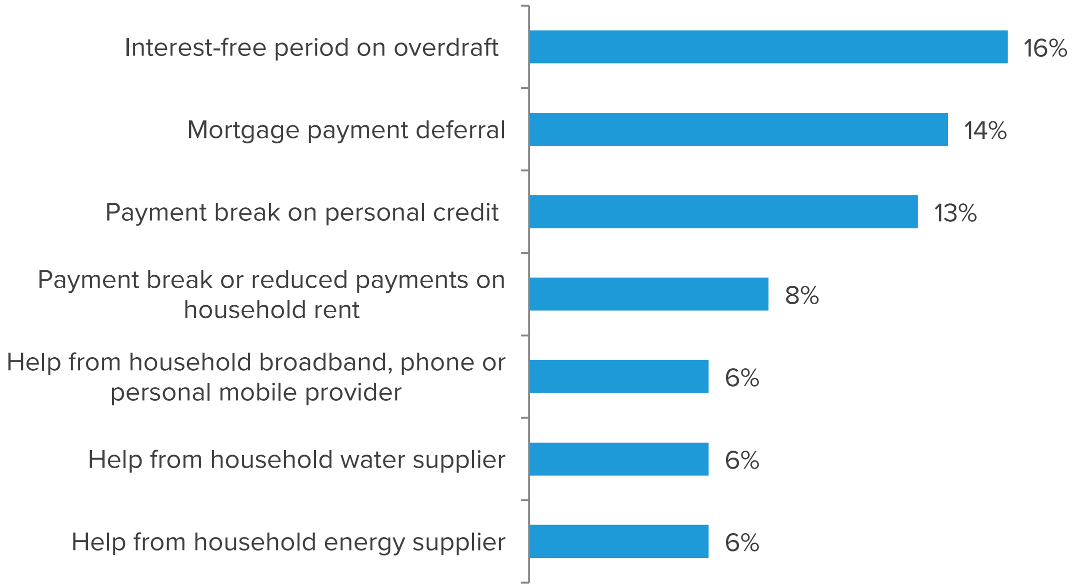
55. A list of the support available is included in the chart on the following page.

56. For a full list of our FCA consultation responses during the outbreak, see our 2020 consultation responses page

Support from private sector creditors

The most common form of support received for personal finances was an interest free amount on their personal overdraft (16%) closely followed by a payment deferral on their mortgage (14%) and a payment deferral on personal credit cards or loans (13%).

Take up of support from private sector creditors



In total, 21% of self-employed people in our sample had taken out some sort of payment deferral for their household bills or personal credit commitments.

One in five (21%) self-employed people have taken out a payment deferral on their personal bills and credit commitments

"I found speaking with my energy and water suppliers very helpful, they gave me all the information needed and managed to reduce my monthly costs with no questions asked they even set up a payment plan after the initial 3 month reduction period had been reached."

"All the support I needed was provided by my bank allowing me to use my overdraft interest free."

Quotes taken from survey responses

However, not everyone felt the support from creditors was forthcoming, suggesting more could be done by creditors and regulators to ensure people are aware of the help available and how to apply for it if they need it.

"We didn't get anything from business energy provider or broadband or water supplier, so have had to make payments in full."

"There needs to be more support for business overdrafts, providing a break in charges and interest during this time."

"...my bank, energy provider and local authority have done absolutely nothing to provide assistance of any type."

Quotes taken from survey responses

Self-employed people who were able to get payment deferrals are now faced with the prospect of how to repay these. While many already have – or expect to – be able to resume full payments, a significant proportion are not confident of being able to do so.

Self-employed people's expectations of ability to begin repayments after payment deferrals end[57]

Type of payment deferral	Proportion **unable to begin repayments** when payment deferral ends	Proportion able to make **only partial** repayments when payment deferral ends
Mortgage payment deferral	17%	7%
Rent payment deferral	39%	12%
Payment deferral on personal credit, such as a credit card or loan	32%	12%
Payment deferral on business credit, such as a credit card or loan	39%	6%
Business rent payment deferral	32%	7%

57. Proportions based only on those who received each type of payment deferral. Bases as follows: Mortgage payment deferral – 246; Rent payment deferral – 144; Payment deferral on personal credit – 277; Payment deferral on business credit – 123; Business rent payment deferral – 129.

Without appropriate support and forbearance from creditors, alongside wider support to help their incomes, this could leave many self-employed people facing spiralling debt issues.

Recommendations

Payment deferrals on credit commitments and bills can, and have been, a vital source of support for self-employed people coping with sudden and unexpected drops to their income caused by coronavirus. With the financial impact of coronavirus continuing to be felt, ensuring continued access to payment deferrals, and other support, for those who need them is crucial - and we welcome the FCA and other regulators' efforts to ensure people continue to receive this vital support over the winter months.

To ensure that payment deferrals provide effective support to self-employed people, we recommend that:

- **The FCA should introduce specific guidance for creditors to support small business customers in line with the support available for personal credit customers.** It is vital that the FCA look more closely at what support firms could offer to business customers, to reduce the risk of an overlap in personal and business finances being exacerbated by customers utilising the support available through personal credit to prop up their business during this difficult period.
- **The FCA, Ofgem, Ofwat and Ofcom should issue specific guidance for firms to consider self-employed customers as particularly likely to be experiencing financial difficulty due to coronavirus, and ensure they pay particular attention to their needs when coming to the end of payment deferrals** or other forms of support. Firms should show additional flexibility and forbearance where needed in recognition of the ongoing uncertainty and impact on many self-employed people's businesses.

Support from government creditors

The most common form of help accessed from business creditors by those within our sample was the option to have longer to pay tax, VAT and National Insurance debts owed to HMRC – 17% of self-employed people we surveyed said that they had taken this option.

These arrangements mean deferred self-assessment payments on accounts due on 31st July 2020 no longer needed to be made until the 31st January 2021, with deferred VAT payments due on 31st March 2021.

Some respondents had also received extra time to repay any debts owed to the DWP – almost one in 10 (9%) within our sample accessed this form of forbearance. At the start of the outbreak, some deductions from benefits to repay debt were temporarily paused, providing some relief to people as they sought to cope with the severe reduction in income they were experiencing.

A possible explanation for this higher rate of uptake on the HMRC deferral options among our sample compared with other forms of creditor support for their business debts, could be attributed to the fact that these are priority debts with potentially serious consequences if they are not paid on time, so respondents focused on ensuring they took advantage of the Government's offer of pushing back payment to a time when finances are more stable.

However, for self-employed people continuing to feel the impact of the outbreak and whose businesses and finances take longer to recover, some have significant concerns about their ability to repay.

Worryingly, just over a quarter (27%) only expected to be able to make partial repayments on priority debts owed to HMRC in the form of deferred tax, VAT and National Insurance.

Over a quarter (27%) of respondents only expected to make partial repayments on priority debts owed to HMRC

In recognition of the potential impact that the repayment of these deferred debts could have if they are called in all at once, the Chancellor has announced the option for those self-employed people struggling to repay their deferred self-assessment tax to do so in 11 instalments over 2021-2022 through the 'Time to pay' scheme, and the New Payment Scheme for deferred VAT bills.[58] This is welcome.

However, with many still struggling long term and their businesses being impacted by the new lockdown measures, this may not be enough alone to prevent many self-employed people falling even further behind with their debts. Taken hand in hand with our findings on how long self-employed people expect their businesses to take to recover from this crisis, the need to meet repayment deadlines as bills stack up and other emergency measures are lifted could lead to a financial cliff edge for some.

This is particularly worrying when it comes to debts owed to government, such as tax debts, as our wider research[59] has found that government creditors often lag behind best practice in the private sector when it comes to fairness and affordability in collections. This can have a significant impact on people in debt – even before the coronavirus outbreak hit, 58% of Business Debtline callers with a debt to HMRC said HMRC's actions had a negative impact on their wellbeing, and 42% said they were not offered help to resolve their debts.[60]

58. HM Treasury (24 September 2020) Chancellor outlines Winter Economy Plan

59. Money Advice Trust (November 2020) *Levelling up: The case for reforming government debt collection*

60. Business Debtline annual impact survey 2020. Percentages relate only to survey respondents who had at least one debt with HMRC. Base 75

Recommendations:

For those self-employed people who owe debts to government departments, particularly HMRC, how this debt is collected is likely to be key to how quickly and effectively they can recover. Fair and affordable collection will help ensure people and businesses can repay their debt without being pushed into further financial difficulty. The announcement of additional time to repay tax debt through instalments is welcome, however further action is also needed. We recommend that:

- **HMRC should put in place clear and easily accessible forbearance options for small businesses and self-employed people facing ongoing financial difficulty** as a result of Covid-19, which impacts their ability to repay deferred tax debts and current tax due. This should include the option to renegotiate repayment plans in addition to the standard forbearance offered through the Time to Pay and New Payment Schemes, based on a Standard Financial Statement assessment of what is affordable for the individual. There should also be the option to temporarily pause repayments where they are clearly unaffordable for the individual.
- **More broadly, the Government should urgently reform government debt collection practices** – in response to the Cabinet Office's recent call for evidence on this issue.[61] This should include implementing a government debt management Bill to embed principles of affordability and fairness throughout all government debt collection, and to bring this up to the standard of best practice seen in the private sector.

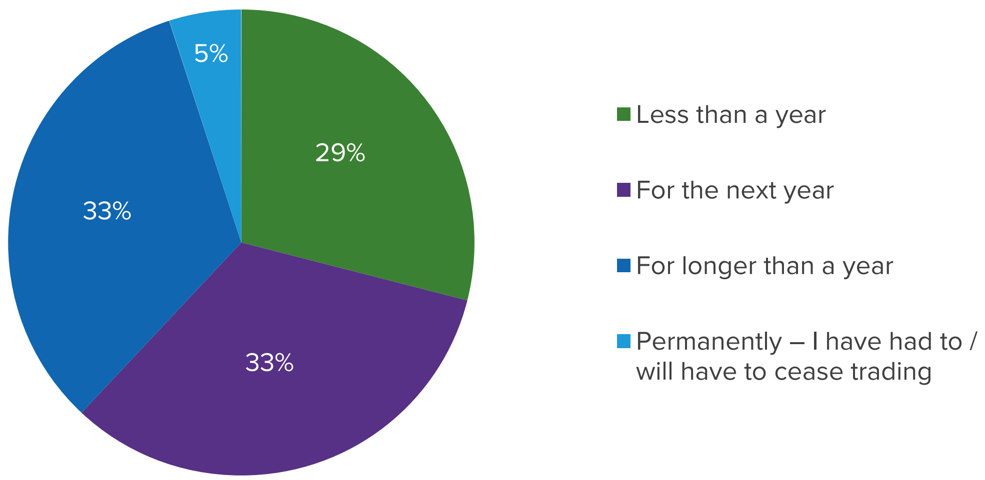
61. Cabinet Office (June 2020) *Fairness in government debt management: a call for evidence*

5. Looking to the future

5.1. Predictions for future recovery are bleak

For many of the self-employed people we surveyed, predictions for the longer term recovery from the outbreak of Covid-19 were bleak.[62] Excluding those who didn't know, two thirds (66%) expected the negative impacts of the outbreak on their business to last a year or more.

Expected length of negative impact from Covid-19 on business



When it came to business income, almost two in five (37%) said they predicted that it would take more than a year for their business to return to normal, pre-covid income levels. Strikingly, almost one in ten (9%) don't ever expect their business income to return to pre-covid levels, suggesting that their business has been permanently and irreversibly damaged by the outbreak.

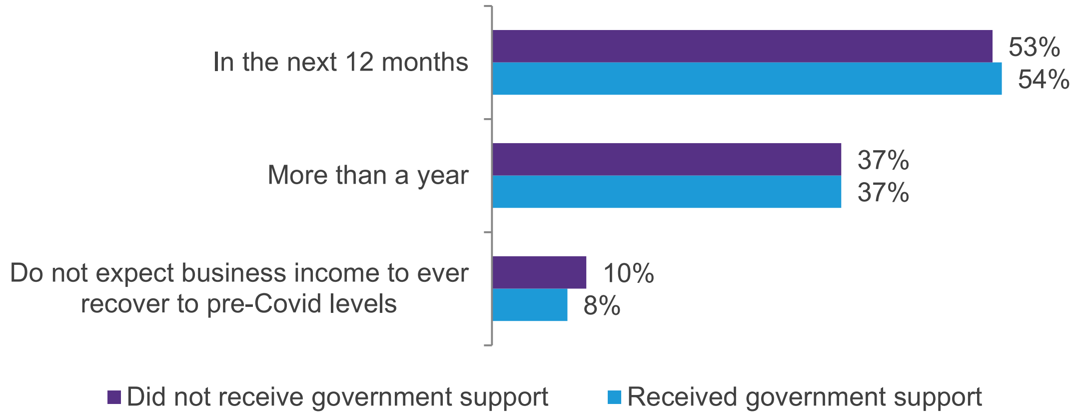
Almost two in five (37%) self-employed people expected it to be more than a year before their business income returns to pre-covid levels.

62. It's worth noting that this poll was carried out before the implementation of local lockdowns, and the second lockdown in England, so it is possible that for many the recovery may be even longer now than initially predicted.

Responses around access to help during the crisis and people's own predictions for the future recovery of their business also paint a worrying picture. When asked about the recovery time for their business, 37% of respondents who received no government help at all predicted the impact to last a year or more. In addition, 10% of those who received no government support estimate that it is unlikely their business will ever recover to pre-covid income levels.

However, a similar proportion of those who were able to access some kind of government support also expected it to take a year or longer for their business income to recover to pre-covid levels.

Predicted recovery of business income to pre-Covid levels



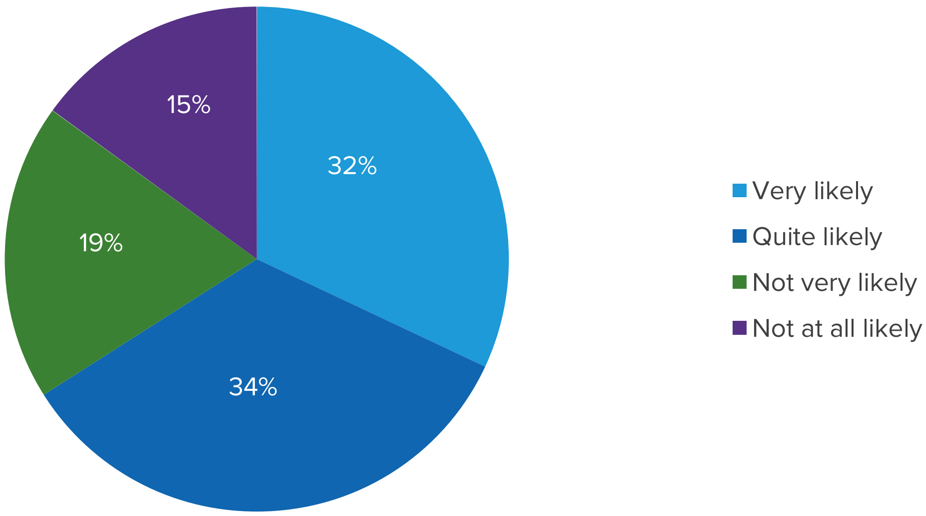
This suggests that, while the support provided by Government may have provided welcome short term financial relief, the road to recovery is likely to be longer for many self-employed people who are still picking up the pieces of their business after the initial impact of the outbreak. In other words, many of the people we surveyed don't think that the support from Government will be enough to sustain their business in the long term.

When asked in more detail about the potential future impacts of the outbreak, 61% thought that it was quite or very likely that they will experience another drop in income.

61% of self-employed people we surveyed think it is likely they will see another drop in income due to Covid-19.

A potential reason for this predicted further financial loss may be in the expectations that respondents had for their future trade – two thirds (66%), the vast majority, thought it quite likely or very likely that they will see reduced trade in the next 6-12 months.

Predicted likelihood of experiencing reduced trade in the next 6-12 months



Given these prospects, it is perhaps unsurprising that research by LSE found one-fifth of self-employed people surveyed said they were likely to leave self-employment as a result of the crisis.[63] Without the right support, there is a real risk that we could see otherwise viable small businesses fold, as people leave the self-employment workforce and leading to a further increase in the number of people unemployed and seeking work.

63. LSE Centre for Economic Performance (November 2020) *Covid-19 and the self-employed: Six months into the crisis*

Recommendations

As our research has shown, many self-employed people have already experienced a significant financial impact from coronavirus, leading to a build-up of debt and arrears for some. However, many people think the worst is far from over and expect to be faced with financial consequences of this outbreak that extend far beyond the short term. While short-term government support has been welcome, a longer-term strategy is needed to help self-employed people get their businesses – and their finances – back on their feet.

We therefore recommend that:

- **The Government should create a dedicated Covid-19 Self-employment Recovery Strategy to identify and deliver the longer term measures needed to secure the financial and economic recovery of the sector as a whole.** This should include considering the role of training, and the provision of accessible business and financial advice, as well as financial support. This strategy should form a key part of the Levelling up agenda in recognition of the contribution the self-employed workforce make to the UK economy.

5.2. Many expect to have to take out further credit

We know from our own research that access to credit plays an important part in how self-employed people manage their finances, with many using personal credit to support their business.[64] Recent research by IPSE found that many self-employed people were already turning to credit options to help them weather the impacts of Covid-19 – 18% of the people they surveyed reported using credit cards or overdraft facilities to support themselves financially as their income dropped.[65]

Access to credit may also play an important part in the long term recovery of self-employed people and their businesses, yet little research has been done into whether this is likely to be the case.

Over one in five (21%) of respondents said it was likely they would have to take out future credit to cover business costs

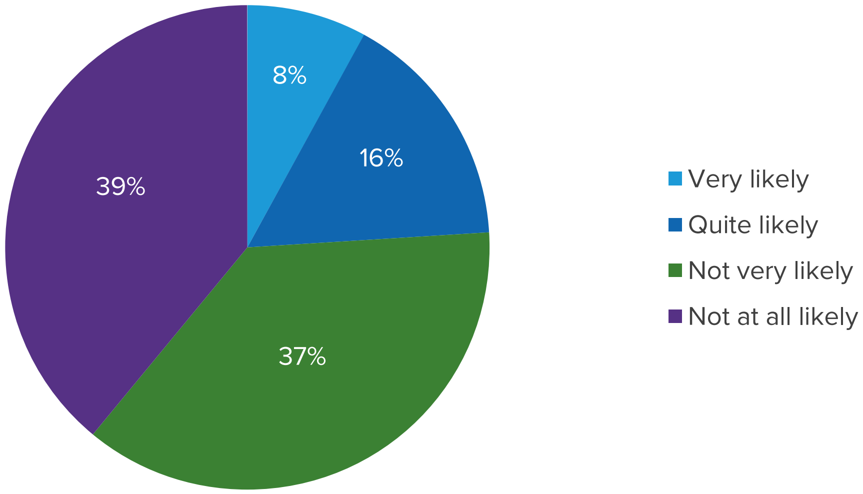
We asked respondents whether they expected to take out credit in future to help cover their business and household costs as a result of Covid-19, and found a significant number of respondents saying that they would.

Just over one in five (21%) thought it quite or very likely that they will have to have to take out credit to cover business costs, while almost a quarter (24%) reported the same for personal or household costs.

64. Money Advice Trust (2018) Taking care of business.

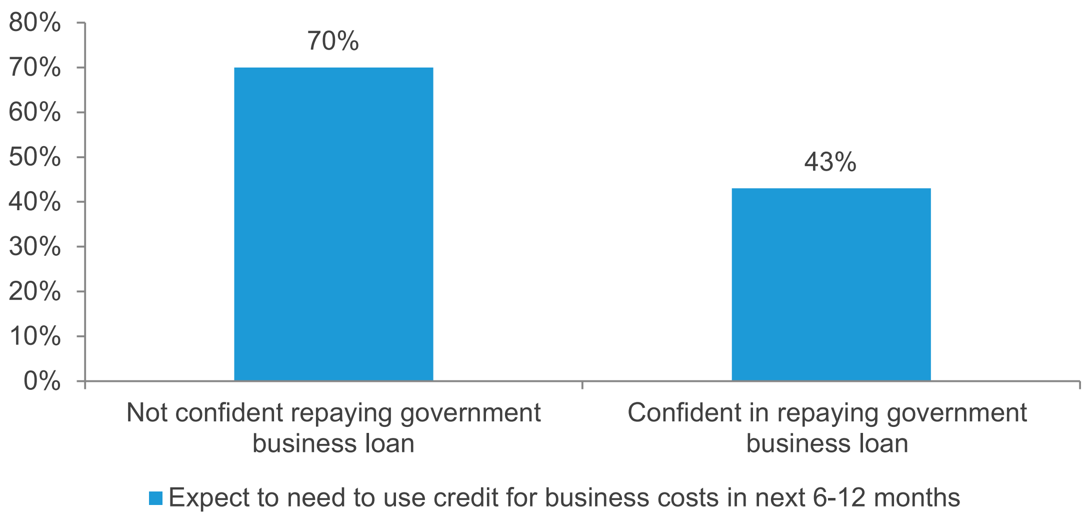
65. IPSE (June 2020) Falling through the cracks: the economic costs of the coronavirus pandemic for the UK's freelancers.

Predicted likelihood of needing to take out further credit to cover household costs



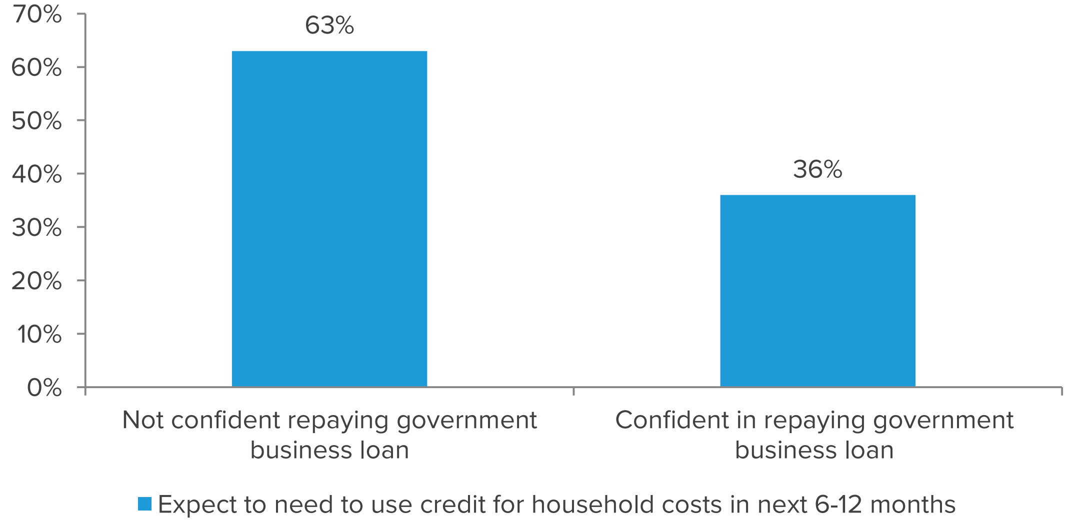
This is particularly concerning when viewed in conjunction with the low confidence levels among respondents who said that they would struggle to pay back one or more of the government-backed business loans, such as the Coronavirus Bounce Back Loan. In fact, of the people who said they were not confident that they would be able to repay their coronavirus business loan, 70% think it is likely that they will need to take out credit in the next 6-12 months in order to cover their business costs.

Predictions for need of future credit for business costs across confidence in repaying government backed business loan



It was also a similar story when it came to household costs - of those who were not confident in being able to pay back their coronavirus business loan, 63% think it is likely that they will need access to future credit to cover their household costs.

Predictions for need of future credit for household costs across confidence in repaying government backed business loan



This is concerning, as it suggests that some self-employed people within our sample will be seeking to take out further credit, despite not being sure that they will be in a position to pay off the government-backed loans that they already have.

It could be that some may be planning on using other credit options to repay the loans. However, as these loans are subject to lower interest than the standard market rate this approach has the potential to leave them worse off in the long term, and could put them at risk of increased debt problems. More worrying, is the possibility that these loans are not enough on their own to help mitigate for the financial impacts of Covid-19 on peoples' businesses and household income. If this is the case then it points to an ever increasing burden of debt for those seeking to take out further credit to support a business that has been severely impacted by the Covid-19, and risks the possibility of some being left with a complex web of debts in the wake of the outbreak.

Recommendations

Our research shows that a significant number of people within our sample view future access to credit as an important part of their recovery from this crisis. What is needed, then, is a strategy that ensures those who can repay can access credit and those who are struggling have access to other means by which to support their financial recovery.

We therefore recommend that:

- **HM Treasury and the British Business Bank should ensure there are clear communications around the repayment of government-backed loans to ensure businesses do not seek further unaffordable credit to cover repayments.** This should include providing clarity on steps that will be taken in cases where self-employed people and business owners cannot repay these loans, and signposting to further sources of advice.
- As part of the recommended wider Covid-19 Self-employment Recovery Strategy, the Government and the FCA should work to **better understand the credit needs of self-employed people and small business owners and act to improve access to affordable credit options for them** - including through any forthcoming pilot of a no-interest loan scheme.
- **This wider Recovery Strategy should also look at how to increase the financial resilience of self-employed** people against potential future economic shocks, to reduce the number having to take on credit to deal with these.

66. Money and Pensions Service (9 June 2020) Press release: Extra £38 million for debt support in England in wake of coronavirus.

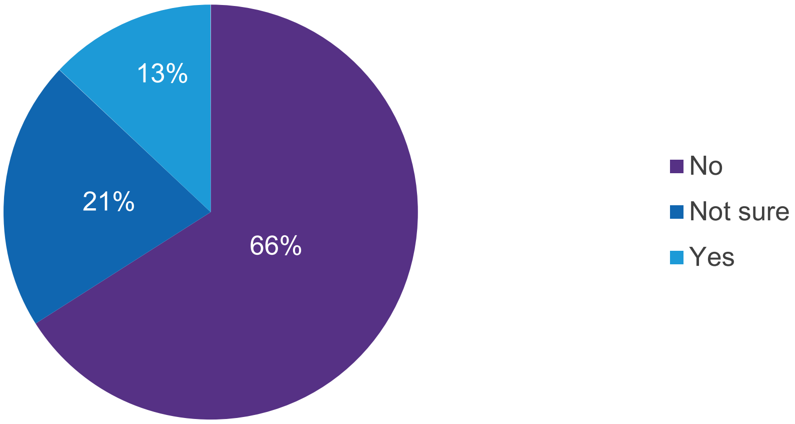
5.3. The need for debt advice

Our advisers at Business Debtline have seen first-hand the impact that coronavirus has had on self-employed people, whether they were tackling problem debt before the outbreak, or newly falling behind as a result.

It is widely expected that demand for debt advice services will increase substantially in the coming months as the longer term impacts of Covid-19 are felt by people across the country – the Money and Pensions Service's last published estimate is that demand for debt advice services will grow by 60% in the coming months, peaking at the end of 2021.[66]

When asked about the need for debt advice in the future 13% of the people we surveyed said that they did anticipate needing advice for their debts within the next year – a further one in five (21%) were not sure if they would or not.

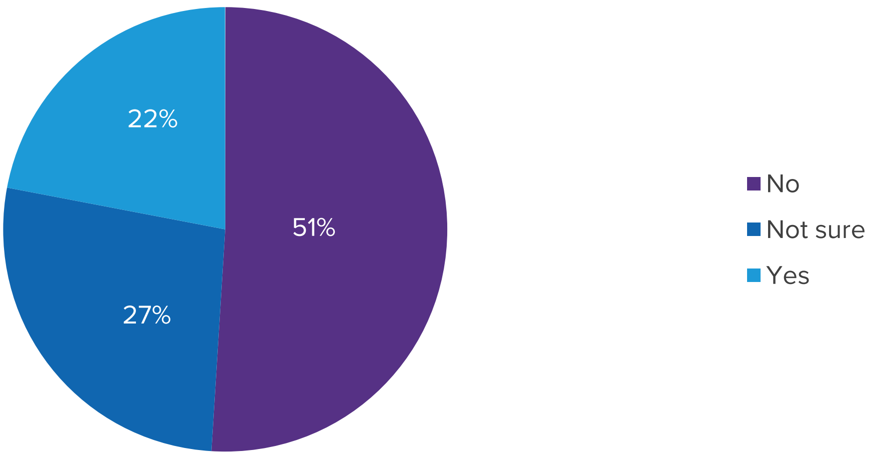
Anticipated need for debt advice in the next 12 months



The anticipated need for future debt advice was highest amongst people who had been in self-employment for less than or between one and two years - one in five in both categories (20% and 22% respectively) said that this was likely to be the case. People who said that self-employment was their main source of household income were also twice as likely to seek debt advice (15%) than those who had additional sources of income (9%).

22% of people who had received some form of support from creditors, either for household or business bills or both, expect that they will need debt advice in the next year – this figure rises to a quarter (25%) for those who had received help from creditors for personal debts, nine percentage points higher than those with business debt support.

Anticipated need for debt advice – respondents who received support from creditors



The blurred line between household and business finances, discussed earlier, makes it difficult to get a clear picture of how connected personal and business debts are likely to be – it may be that the personal debt has been accrued to support business finances.

Nevertheless, these findings imply that while payment breaks and deferrals might be helpful for self-employed people struggling with the initial impacts of the outbreak, a significant proportion expect these debts to become problematic later on down the line.

It is not clear whether, beyond seeking debt advice, these people have a plan of how they would manage these debts - it is not unusual for people with problem debt to struggle in navigating a route out.

This is something that was reflected in the results of a survey we conducted in May this year into the experience of Business Debtline callers who had contacted us within a year before coronavirus hit, all of whom had experienced some form of problem debt.[67] Almost half of the callers we spoke to were also lacking a clear long term plan of what to do to manage their debts, in light of changes to their circumstances due to Covid-19.[68]

Among these Business Debtline callers, almost 1 in 5 (18%) said they were planning on seeking advice for their debts again in future– much higher than the response we received from callers to National Debtline.[69]

This was a trend reflected in the results from this research - 60% of respondents who had sought debt advice before the lockdown stated that they are likely to need debt advice in the next 12 months. This was the case for just 9% who had not received advice for their debts in the year prior.

67. Money Advice Trust (May 2020) At the business end: The impact of Covid-19 on Business Debtline clients.

68. Ibid

69. ibid

60% of respondents who had sought debt advice before the lockdown stated that they are likely to need debt advice in the next 12 months.

This may be symptomatic of the lower level of financial resilience against the financial impacts of Covid-19 amongst people who had experienced problem debt just prior to the outbreak, and may also suggest that there is likely to be more willingness amongst people who have sought debt advice in the past to do so in the future.

Recommendations:

Our research suggests the need for debt advice is likely to be high among certain parts of the self-employed population. It's vital they are able to access timely, free advice to help them deal with their debts and get back on track.

To help achieve this:

- **Creditors across all sectors – including government creditors – should ensure that they put in place debt advice strategies specifically for self-employed people and other small business owner customers**, including referring to Business Debtline for free, independent advice and support.
- **Government departments - such as HMRC and DWP – should ensure information about specific free debt advice for self-employed people is included prominently in communications** about coronavirus financial support for self-employed people and small business owners.

6. Summary of recommendations

1. **The Government should create a dedicated Covid-19 Self-employment Recovery Strategy** to identify and deliver the longer term measures needed to secure the financial and economic recovery of the sector as a whole. This should include considering the role of training, and the provision of accessible business and financial advice, as well as financial support.

2. **The Government should urgently introduce a discretionary grant scheme specifically to support those excluded from the Self-Employment Income Support Scheme.** The scheme could be delivered through utilising the existing infrastructure within HMRC currently set up to deliver the SEISS, and concerns about fraud could be combatted by each applicant being required to provide evidence of their eligibility – rather than having an automatic right to access based on their tax return.

3. **The Department for Work and Pensions should ensure that Universal Credit continues to provide the maximum possible support** to self-employed people. With many expecting the impact on their business and income to last for a long time yet, the suspension of the Minimum Income Floor and the £20 a week uplift should be extended beyond March 2021, with a view to reforming the Minimum Income Floor in the longer term.

4. **HM Treasury and the British Business Bank should work with lenders to ensure there is a fair and affordable approach to recovering government-backed coronavirus business loans,** including ensuring that any implications for businesses defaulting on loans is proportionate, given the unique situation many have faced due to the pandemic.

5. **The Government should actively explore the use of a Student Loan-style repayment scheme for small businesses who have taken government-backed loans they cannot afford to repay** – with repayments linked to levels of future business income

6. **The Government should increase the powers of the Small Business Commissioner to act on late payments,** including the ability to impose penalties for non-compliance with the Prompt Payment Code, to ensure that late payments don't further disrupt businesses' ability to recover from the impact of coronavirus.

7. **Government departments – particularly HMRC and the Department for Work and Pensions – should ensure there are clear and easily accessible forbearance options for small business owners and self-employed people facing ongoing difficulty repaying debts to government,** including the option to renegotiate repayment plans for tax debts and to temporarily pause deductions from Universal Credit.

8. **The FCA, Ofgem, Ofcom and Ofwat should work with creditors and essential service providers to ensure self-employed people struggling with their bills are recognised as a particularly vulnerable group** and are therefore offered specific forbearance and flexibility across both their personal and business debts, including when coming to the end of payment deferrals. Regulators should establish 'lived experience' panels to ensure that their work adequately takes into account the needs of people in self-employment..

9. **Creditors across all sectors – including government creditors - should ensure that they put in place debt advice strategies specifically for self-employed people and other small business owner customers**, including referring to Business Debtline for free, independent advice and support.

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