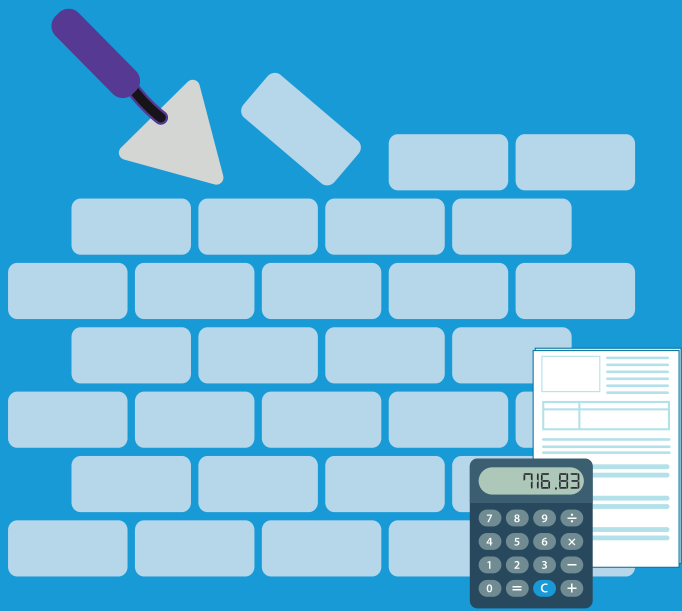
MONEY ADVICE TRUST

BUSINESS DEBTLINE

BUILDING BACK BUSINESS

Tackling small business debt in the wake of Covid-19



December 2021

SUMMARY

The Coronavirus pandemic has had a profound impact upon the businesses, income and finances of many self-employed people and small business owners.[1] A year and a half on from the initial outbreak, and the financial shocks it brought with it, many self-employed people and small business owners are feeling some sense of a slow return to normality - but not all businesses have been impacted equally. While some self-employed people and small business owners have been able to "bounce back" from the initial impacts of the outbreak, for many others recovery has been more difficult, with financial worries still very much at the forefront and a growing burden of debt to contend with.

While emergency Covid-19 support measures introduced by the Government during the initial outbreak provided welcome relief to many, others without access to support, such as the Self-Employment Income Support Scheme, have been left little income to meet day to day costs. Government-backed loans, such as the Bounce Back Loan, have helped plug this gap, but questions remain around affordability of repayments. For people whose businesses are yet to recover, meeting these additional costs is becoming more of a worry as lenders begin to demand repayment.

For those who went into this crisis already experiencing problem debt, these challenges are particularly acute. Many have had limited, if any, savings to fall back on leaving them more vulnerable to the financial shock that the virus imposed on their business, income and finances. With existing debts to contend with, the collapse in income that many experienced has left them with real concerns over the future of their business and their recovery.

As we set out in this report, conducted with support from JPMorgan Chase, it is vital that support remains ongoing for self-employed people and small business owners still dealing with the impact of Covid-19, to prevent an increasing burden of debt and ensure those caught at the sharp end of the crisis have the best possible chance of recovery.

Recommendations

- HM Treasury and the British Business Bank should work with lenders to ensure there is a consistent, fair and affordable approach to recovering Bounce Back Loans, including publishing clear and consistent guidance on collection and forbearance for lenders to follow.
- Creditors (including firms and government departments) should offer specific forbearance to self-employed people struggling to repay Covid-related debts, and have a clear strategy on how to support self-employed people and small business owners in financial difficulty.
- To support self-employed people on the lowest incomes and those facing a continued impact on their business, the Department for Work and Pensions should review the support available for self-employed people, including reviewing the Minimum Income Floor in Universal Credit.

FURTHER SUPPORT IS NEEDED FOR SMALL BUSINESSES AND SELF-EMPLOYED PEOPLE STILL FEELING THE IMPACTS OF COVID-19

An increasing burden of debt

Self-employed people were three times more likely to see a fall in income due to Covid-19 compared to their employee counterparts.[2]

55% of Business Debtline callers surveyed had fallen behind on one or more household bill as a direct result of the outbreak. 62% had fallen behind on one or more business bill.

Almost half of those who had taken out a Bounce Back Loan (48%) said that they were **due to make repayments but had not been able to afford to do so.**

Businesses continue to be impacted

Almost nine in 10 Business Debtline callers surveyed **(89%) reported that Covid continues to impact their business**. 40% said that their business continues to be impacted to a large extent.

Of these callers, more than a third (38%) expected the impact of Covid on their business to last for at least 6 months – with 8% expecting it to last more than 18 months.

The **majority of Business Debtline callers surveyed (79%) reported regularly losing sleep due to the impact that Covid-19 continues to have on their business.**

More support is needed

For many self-employed people and small business owners, Covid-19 has led to not only a loss in income but an increased burden of debt and real concerns around their ability to continue trading.

78% of Business Debtline callers surveyed worried about the future of their business in the wake of the outbreak.

Two in five (42%) thought it very likely, and 34% quite likely, that they will experience another drop in income over the next year.

In addition, our research reveals real concerns around repayment of debts and government backed loans where repayment is not affordable.

If these issues are not addressed, there is a real risk that otherwise-viable businesses will struggle to recover, and people could lose their livelihoods.

SELF-EMPLOYED PEOPLE HAVE BEEN DISPROPORTIONATELY IMPACTED BY COVID-19

About our research

Through our Business Debtline service, we continue to support self-employed people through the ongoing impact of Covid-19. We wanted to understand more about the challenges they are facing as the country looks to recover from the outbreak. To explore this, we conducted a survey of 282 Business Debtline callers who had previously contacted the service between March 2020 and June 2021 for advice with problem debt. Please refer to the methodology section at the end of this report for more information.

Most of the people who responded to our survey identified as sole traders (66%), in line with the business type we most commonly help at Business Debtline. Businesses were spread across a variety of trades, such as transport and storage, arts, entertainment and recreation, and retail and distribution.

Most people identified as male (68%), with the majority falling between the 45-64 age range (61%). Over half (51%) were from low-income households of under £20,000 per year (net), and a significant proportion (57%) reported having a physical or mental illness or disability. The majority of respondents identified as White British (68%), followed by White (other background) (7%), and Black, Black British, Caribbean or African (4%).

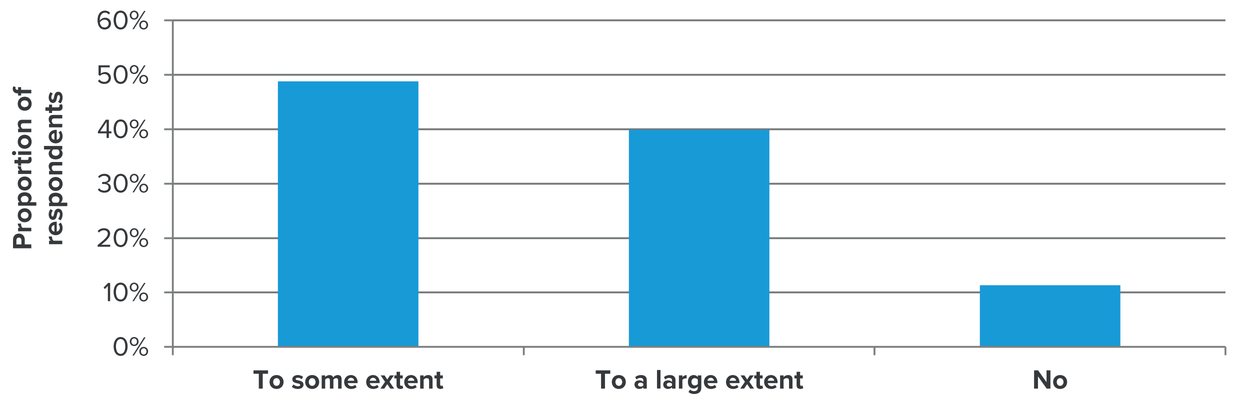
A growing body of research shows that for many self-employed people and small business owners, the financial effects of Covid-19 have been severe and disproportionate when compared with their employee counterparts. Covid-19 remains the main reason that people contact Business Debtline for support. [3]

Findings from the Office for National Statistics (ONS) show that, by April 2021, **self-employed people were three times more likely to report a reduction in income due to Covid-19** compared to employees.[4]

These findings are echoed in the experiences of self-employed people in our research. More than half (55%) had seen their business income drop as a result of the outbreak, with almost all (89%) reporting that Covid continues to impact their business to at least some extent. For two in five (40%), Covid-19 continues to impact their business to a large extent.

Many were also experiencing low incomes, with 51% reporting household incomes of under £20,000, adding to growing evidence that Covid-19 has disproportionately affected low-income households. Research from the London School of Economics Centre for Economic Performance shows that by January 2021 57% of self-employed people surveyed were on low incomes earning less than £1000 per month.[5] Findings from the Resolution Foundation show that between February 2020 and June 2021, 32% of people on the lowest incomes saw a fall in savings[6], while 31% of families on Universal Credit in January 2021 reported being in more debt than at the start of the outbreak (compared to 13% across all income levels).[7]

Respondents whose businesses are still being impacted by Covid-19



INCREASING BURDEN OF PERSONAL DEBT

It is perhaps unsurprising then that the impact of Covid-19 on self-employed people's incomes has affected their ability to pay their personal bills and credit commitments.

Over half of the people we surveyed (55%) reported falling behind on at least one or more household bill.

The most common bill for people to have fallen behind on was their household energy bills (25%), perhaps partially explained by the move to working from home and the use of homes as business premises. With energy bills set to rise in the coming months, it is likely that many more will face higher energy debts as the colder months take hold. Rent (23%) and council tax (20%) also feature highly, suggesting that Covid-19 has had a real impact on our respondents' ability to meet essential household costs and pay their priority bills on time.

Most people (75%) had also fallen behind on one or more credit commitment. By far the most common debt was credit card arrears (61%), followed by personal loan arrears (40%) and personal overdrafts (32%).

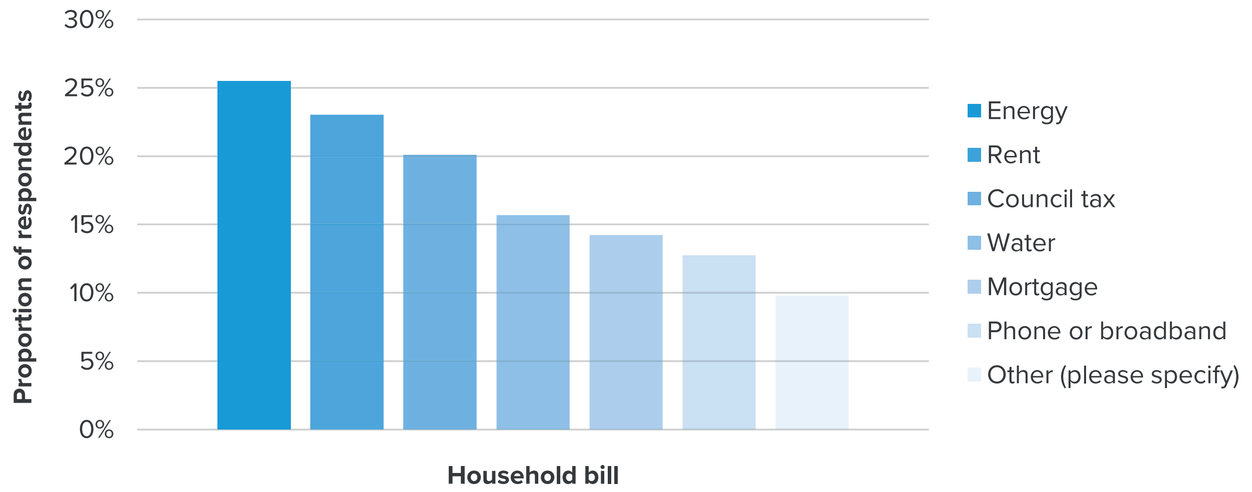
This follows similar lines to the most common debt types amongst wider callers to Business Debtline – 54% of people who contacted our service in September this year had credit card debt, 37% had overdraft debt and 32% had fallen behind on personal loan payments.

Many self-employed people we spoke to also reported taking out new credit products to help deal with the impact of Covid-19 on their business (21%). Given many small business owners are reporting that their trade and income has not yet recovered to pre-pandemic levels, many could struggle to repay their credit commitments.

Worryingly, 17% reported taking out personal credit to support their business, reflective of the overlap in personal and business finances that we often see at Business Debtline.[8] This can have real implications for cash flow management and personal budgeting further down the line as finances become mixed.

With growing evidence that debt levels are set to reach high levels as living costs increase over winter [9], if things don't improve for some people's businesses, it is reasonable to expect that many will fall further into personal debt.

Proportion of respondents who have fallen behind on at least one household bill as a result of Covid-19



THE ADDED PRESSURE OF BUSINESS BILLS

While many people will have struggled with personal debts due to Covid-19, small business owners and self-employed people have the added pressure of meeting business costs. The majority of people we surveyed were struggling to keep up with their business bills, with **62% falling behind on at least one or more business bill as a direct result of the outbreak**.

The most common bill that people reported falling behind on was their business rent (20%), closely followed by payments on a business loan (16%) and business credit card (15%). For those with business premises, falling behind on their rent could mean being faced with the real possibility of eviction. The requirement for a separate premises for their business to operate could also have meant they were less able to recoup losses during the lockdown when businesses were ordered to close.

The high level of business credit and loan debts is concerning given what we understand about the link between taking out too much credit and the need for debt advice.[10]

We know that if people take on credit to deal with an income drop – as many small business owners may have done during Covid – but their income does not recover as expected, this can quickly lead to debt problems and difficulty meeting repayments.

While the Financial Conduct Authority (FCA) was quick to introduce revised guidance to creditors for supporting customers struggling with personal mortgages or consumer credit products during the outbreak, these measures were not extended to business loans and other business credit products, leaving many struggling to keep up with repayments and reliant on lender discretion to get the help that they needed.

Nevertheless, a significant proportion of our sample (69%) said that their creditors had been understanding of their situation, with 60% reporting that their creditors had given the help they needed to deal with their debts. This is certainly positive, but for the self-employed people and small business owners likely to be struggling with business debts well beyond the end of lockdown, it is vital that creditors continue to provide this level of support to those who need it.

"My daily bookings have been impacted by cancellations, so it's hard to plan. I'm using savings to pay my personal bills, but I will run out if things don't pick up soon. I have not paid myself any wages since May to keep costs down and to survive."

Business Debtline client, responding to our survey

BUSINESSES ARE STILL FEELING THE FINANCIAL EFFECTS OF THE OUTBREAK

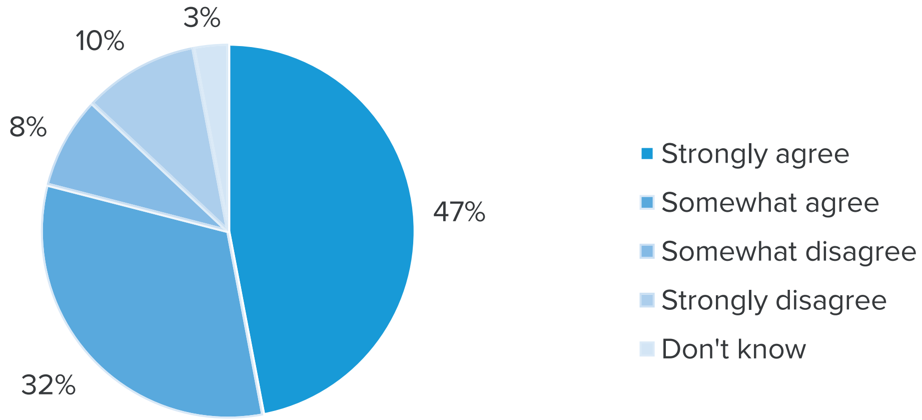
While some small businesses and self-employed people have managed to weather the impacts of the outbreak and have managed to recover, our research shows that this hasn't been the case for everyone.

This isn't just having an impact on people's finances. In our survey, **79% reported regularly losing sleep due to the impact that Covid-19 continues to have on their business.**

For people whose business was still being impacted by Covid-19**,** the vast majority put this down to a lack of trade (58%). This suggests that for many the uncertainty caused by the outbreak is still very much at the forefront – some are unlikely to see their finances recover until trade returns to pre-covid levels.

Despite the lifting of lockdown measures, 22% of respondents also reported difficulty working or running their business due to illness or self-isolation. With the risk of an increase in the level of infections during the colder months [11], the impact of self-isolation and illness could have ongoing implications for peoples' businesses and incomes as well as their wellbeing. For sole traders, who make up the majority of callers to Business Debtline, the inability to work due to illness has real consequences for their business income. Without access to sick pay [12], one day of lost work is one day of lost income.

Agreement with the statement "I have regularly been losing sleep due to the impact of Coronavirus"



> "I'm currently living week to week I'm self- employed so don't get paid when I'm off . Having one week off work sick, or due to supply chain distributions, cripples me for months trying to catch up"
>
> Business Debtline client, responding to our survey

An inability to pay for ongoing business expenses was cited by one in five (20%) of respondents as a way in which Covid continues to impact their business, pointing to questions around the support available to business owners affected by Covid-19 and the help needed to get them back on track. With the added burden of debt that many respondents report experiencing, there are also questions around when, or indeed how, they will return to an even footing financially. Of the people we surveyed, 38% did not expect to see the end of Covid's impact on their business within the next six months and almost one in ten (8%) expected it to last more than 18 months. Many (38%) were unsure how long the impact on their business would last, highlighting the high level of uncertainty many are facing as we emerge from this crisis.

VULNERABLE CIRCUMSTANCES BRING ADDITIONAL CHALLENGES

For small business owners and self-employed people, personal circumstances can have a significant impact on their business. Factors such as having a physical or mental illness or disability, caregiving responsibilities, or low financial resilience can all make people more susceptible to financial difficulty or experiencing harm, if these circumstances aren't taken into account by creditors.[13]

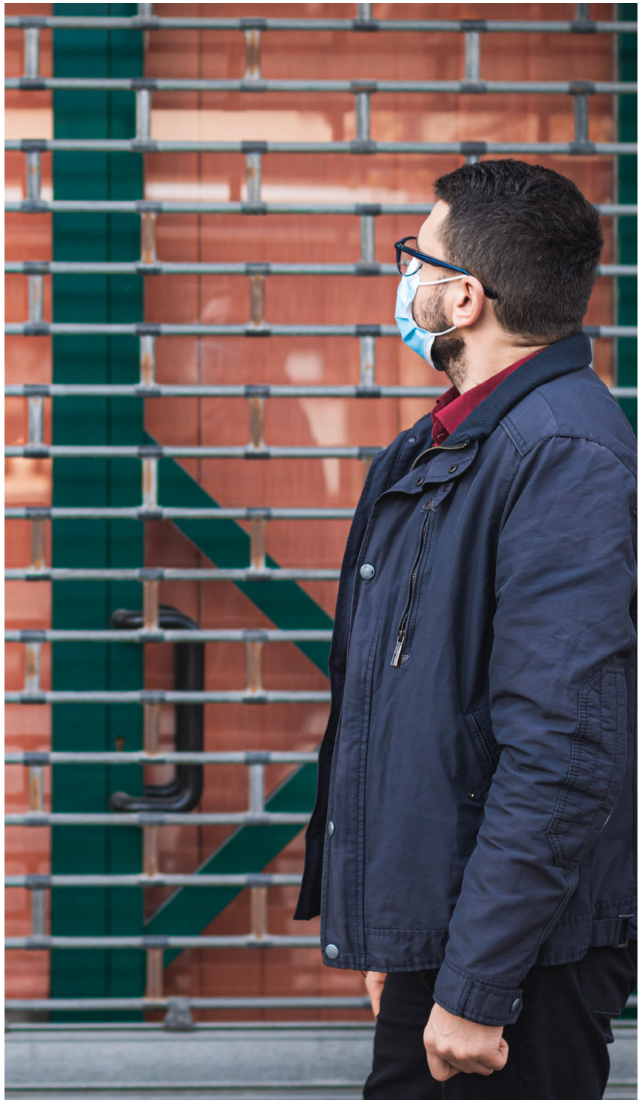
A significant proportion (57%) of self-employed people we surveyed reported having one or more physical or mental illnesses or disability.

There is also often a direct link between a business in or at risk of financial difficulty and the physical and mental health of the owner.[14] Perhaps not surprisingly then, **nearly all (88%) our survey respondents reported that the financial worries caused by Covid-19 have had a negative impact on their mental health and wellbeing.**

Low financial resilience can also leave people vulnerable to financial shocks, and existing debt can increase this risk. The overwhelming majority of the Business Debtline callers we surveyed went into the crisis with pre-existing debts (80%), and most (66%) had seen their debt situation worsen during the outbreak.

Of those with access to personal savings, 62% reported having to use them to cope with the impact Covid-19 has had on their business. Worryingly, just 15% of people we surveyed had savings to cope with another drop in income.

While we have seen welcome progress in supporting vulnerable personal finance customers, led by regulators such as the FCA[15], **the impact of vulnerable circumstances on small business owners and self-employed people – and the support they may need as a result – is arguably less understood.** Our research suggests many small business owners are at just as high a risk of detriment as personal finance customers. It is therefore important that creditors understand and take account of the circumstances of their self-employed and small business customers, and the impact that experiencing vulnerable circumstances may have on their business and income.



GETTING FINANCES BACK ON TRACK

Most of the people we surveyed have businesses that are still trading (71%), and while almost all are still seeing their business impacted by the outbreak (89%) there are reasons to be optimistic about their recovery. **The majority (57%) do have a plan for getting their finances back on track.**

Of these, two in five (42%) plan to seek further debt advice which could help get themselves back on stable financial footing.

The other most common steps respondents plan to take to help stabilise their finances are generally focused on maximising their budgets (31%), calculating or recalculating their budgets to assess income and outgoings (30%), and spending less on non-essential purchases (26%). All these steps are in line with the advice they will have received during a call to our advisers, so it is positive to see respondents' plans to implement them.

Many respondents also planned other ways of adapting to their circumstances, with one in five (19%) saying that they plan to restructure their business model to help their finances recover, and 23% planning to seek secondary employment to supplement their business income.

However, almost a quarter (24%) also reported plans to cease trading or shut down their business, suggesting that for some the impact of the outbreak on their business has caused irreversible damage. Indeed, most people whose businesses had ceased trading during the outbreak, 80% cited Covid-19 as the cause.

This poses real questions for how policy makers, regulators and creditors approach supporting people who are still seeing their business affected by the pandemic. Without the right support, otherwise viable businesses could fail because of the impact of the pandemic. This would have devastating consequences for individuals, who could lose their job and livelihoods and face worsening problem debt, while also hampering the wider economic recovery.

"I'm currently living week to week. I'm self- employed so don't get paid when I'm off. Having one week off work sick, or due to supply chain distributions, cripples me for months trying to catch up"

Business Debtline client, responding to our survey

"Although I am financially stable at the moment, thanks to Business Debtline's advice, there is still the debt to be paid."

Business Debtline client, responding to our survey

Funds are running out

Beth, Business Debtline client[16]

Beth works as a sole trader with a business in the events industry that she has run for 20 years. Being in events has meant that the Covid-19 outbreak has significantly impacted her business due to lockdown restrictions. At the start, Beth was optimistic, but describes the continuation of the outbreak as *"exhausting"*.

Over the past year, she has seen her sales decrease from £15,000 a year to £1,500. Beth has had to sell her property and move into the private rented sector and, at the moment, is relying on money from the sale and a PPI payout she received at the start of the pandemic. However, if her business income doesn't pick up soon, she is worried her finances will become stretched.

She had received support from the Self-Employment Income Support Scheme (SEISS) and Universal Credit due to the suspension of the Minimum Income Floor, and after a first failed attempt, was able to access support through the Bounce Back Loan Scheme.

While she has managed to keep her finances on track so far, she is worried about the future. She now faces little to no income until March 2022 – there is interest in her business, but trade has ground to a stop.

Beth has been grateful for the support she has received, but describes her experience of the pandemic as *"like someone had pressed the pause button, like there was a protective ring around people but now that has gone, no one is sure."*

Left "high and dry"

Chris Business Debtline client[17]

Chris is a sole trader who runs a kilt hire and tailoring business from his home. His business was only a year old at the start of the pandemic, and he had an existing business loan and personal loan taken out to help with his business start-up costs before the outbreak.

Due to lockdown measures, and the hands-on nature of his work, he had to temporarily stop trading in 2020. He does not trade online, so his income dropped to almost nothing overnight. He quickly fell behind on his energy bills and council tax, which he was able to receive help from his provider and council with. However, he says he is now *"playing catch up"* with payments.

He had to stop his personal loan and business loan payments and described his creditors as very unsympathetic – *"it was like, no we want you to start paying this"*. After receiving advice from Business Debtline, he approached his creditors and they did stop demanding payments, but Chris says the experience *"definitely had an impact on my health – there's no doubt about that"*.

Due to his business only being a year old, Chris wasn't entitled to the SEISS. He also did not access a Bounce Back Loan due to his existing debts. He feels the Government has left people like him *"high and dry"* without support.

While he is optimistic about the future, as business has started to pick up, his credit rating has been badly impacted, and he is worried her business will not survive another financial shock.

Names and photographs have been changed to respect anonymity

THE IMPACT OF SUPPORT

Emergency Covid-19 support measures introduced by Government to support self-employed people and small business owners through the outbreak undoubtedly provided welcome relief to many who were struggling.

However, not all self-employed people and small business owners were able to access support under the different schemes, and many were excluded from support due to issues around eligibility.[18] Excluding the Government's Bounce Back Loan Scheme, which we explore in the next section of this report, access to support was not evenly distributed amongst the people we surveyed. While some did receive help through one or more emergency support measure, others reported receiving no support at all to help them deal with the impact of the outbreak.

Universal Credit

Changes to Universal Credit, through the suspension of the Minimum Income Floor and the £20 per week uplift, meant that self-employed people were able to access more support than was previously available. Over a third (36%) of self-employed people in our research received Universal Credit. While some respondents may have received other forms of help in addition to this, we know that for many self-employed people Universal Credit was the only form of help they were able to receive from the Government due to lack of eligibility for other schemes.[19] For these people, the recent cut of £20 a week may be particularly challenging to cope with financially.

Self-Employment Income Support Scheme (SEISS)

Of the people we surveyed, 35% accessed support through the SEISS. This provided vital help to replace lost incomes, but it was also subject to criticism due to its exclusion of at least 2 million people.[20] Our previous research has suggested that, even among those who received the grant, in some cases it has not been enough to stop people falling into financial difficulty.[21]

Did not access support

Worryingly, over a fifth (22%) of people we surveyed did not receive support from any of the emergency measures listed. As the sample comprises Business Debtline callers with experience of problem debt, this opens real questions around whether the support available has reached those who need it most.

Form of support	Proportion of respondents who received this
Universal Credit	36%
Self-Employment Income Support Scheme	35%
A payment break on debts owed	19%
Coronavirus Business Grant	14%
Mortgage payment deferral	12%
Help from HMRC	9%
Council tax payment deferral	8%
Coronavirus Job Retention Scheme	7%
Help from utility providers	6%
Business rates relief	3%
Rent payment deferral	3%
Employment Support Allowance	1%
Coronavirus Business Interruption Loan Scheme	1%
Reimbursement of Statutory Sick Pay costs	1%
Recovery Loan Scheme	1%
None of these	**22%**

BOUNCE BACK LOANS – A LIFELINE...

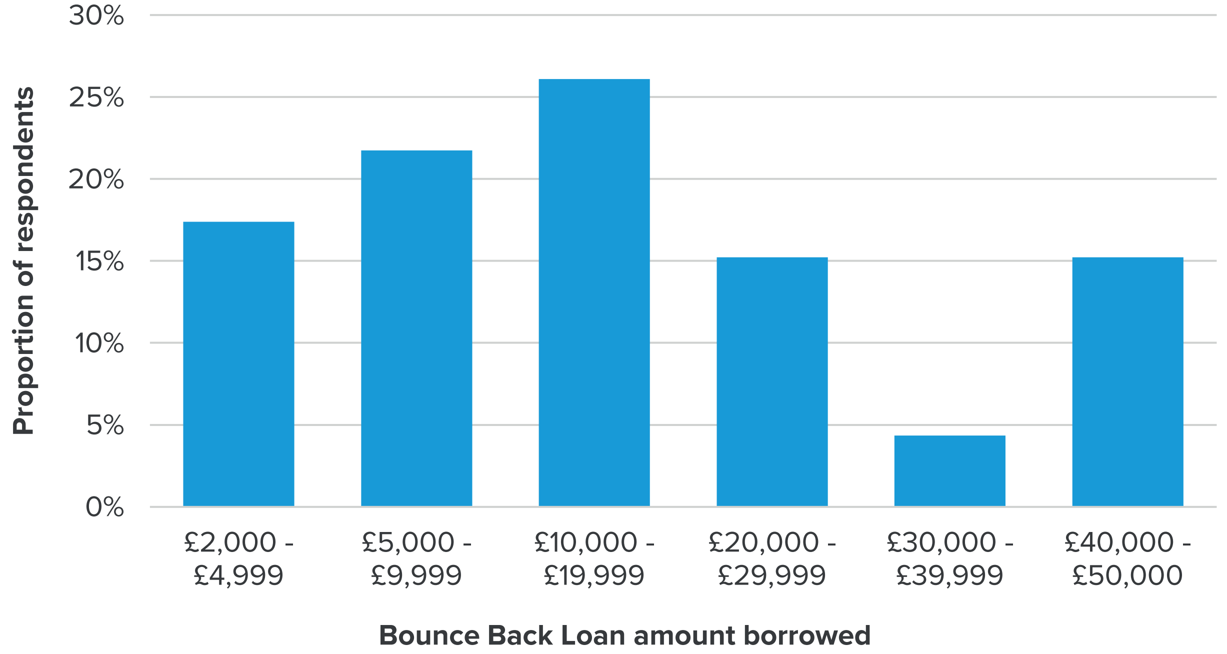
The Government's Bounce Back Loan scheme was introduced in May 2020, lending over £47 billion before the scheme closed in March 2021. The scheme was by far the most popular of Government business loans, accounting for over 93% of loans approved and almost 60% of funds distributed.[22]

Among the self-employed people we surveyed, just over a fifth (22%) had received a loan through the scheme. Of these, the majority (65%) had borrowed less than £20,000. Just over a quarter (26%) borrowed between £10,000 and £20,000 with a fifth (22%) borrowing between £5,000 and £10,000, and 17% borrowing between £2,000 - £5,000.

Almost a quarter of people who had taken out a Bounce Back Loan (24%) had already started making repayments. Some (37%) had approached their lender to request extra time to pay, with a further quarter (24%) reporting plans to do so. Although only a small proportion of respondents, the more detailed findings around some people's interactions with their Bounce Back Loan lenders gives some indication of the positive experience some are having when it comes to flexibility on repayment. Reassuringly, of the 17 people who had asked their lender for extra time or support to repay the loan 9 said that their lender had been extremely helpful in accommodating this, with 5 reporting that their lender had been somewhat helpful.

Taken in combination, its clear that many within our sample have had a positive experience with the Bounce Back Loan process. However, among those struggling to repay a different picture emerges. Just 8% of respondents who had taken out the loan expected to be able to repay it when the time came. Worryingly, almost half (48%) said that they were due to make repayments but had not been able to afford to do so.

Amount borrowed amongst respondents who had taken out a Bounce Back Loan



...OR JUST ANOTHER BURDEN?

The Government has introduced some welcome flexibility for repayment of the loans through the 'Pay as You Grow" scheme, which allows businesses up to 10 years to repay 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 only once). However, even with this support, our research suggests that some self-employed people will struggle to repay. We are also seeing difficulties for some people in accessing help under the "Pay as You Grow" scheme, and people facing demands for unaffordable repayments.

Amongst those who had been given more time by their lender to repay their Bounce Back Loan, 29% said that they still only expected to be able to repay some of the loan, and 41% said they were unsure, highlighting a degree of uncertainty around future finances even with the extended timescale offered. 8% did not expect to be able to make any repayments when they are due.

Questions have previously been raised about the implementation of the scheme and around potential risks in the affordability of repayments. Following its launch, a National Audit Office investigation in October last year raised real concerns around the removal of affordability and credit checks on application for the loan and the implications this has for repayment.[23]

While the Government's rationale of getting money to people quickly was clear, and arguably important, this context must be taken into account in decisions about how loans are collected. It is vital that people who cannot afford to repay their loan are treated fairly and not subject to unaffordable demands for repayment that will only make their financial situation worse.

While the loan is 100% Government-backed, it is also not yet clear when the guarantee kicks in for lenders. There is also no standardised collection guidance [24], which risks leaving some self-employed people and small business owners who remain in financial difficulty without a clear indication of what the outcome will be if they remain unable to afford to repay. This potentially risks leaving business owners who contact Business Debtline seeking a debt solution in limbo until a formal decision is made about when the guarantee kicks in. For some, this could also risk disrupting or halting existing debt solutions that they may be in the process of entering, raising serious questions around the impact the loan has for those seeking safe routes out of debt.

"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."

National Audit Office Investigation into the Bounce Back Loan Scheme

"I NEED A LUCKY BREAK"

Sara, Business Debtline client[25]

Before the outbreak of Covid-19, Sara had a hairdressing business that she ran from a business premises. When Covid-19 hit, she was forced to close shop and cease trading due to lockdown restrictions. Sara took out a Bounce Back Loan of £9000 when the scheme was introduced to help with the costs of loss of trade, but she is no longer in a position to repay it. Due to the financial impact of the pandemic, she also had to give up the lease on her shop.

While she has since returned to seeing some clients from home or visiting their homes, other clients have gone elsewhere and she has lost work. Sara was not able to access support through her local council, as this was accessed by the landlord of her business premises, and she also has debts related to a tribunal case which is now in the hands of bailiffs.

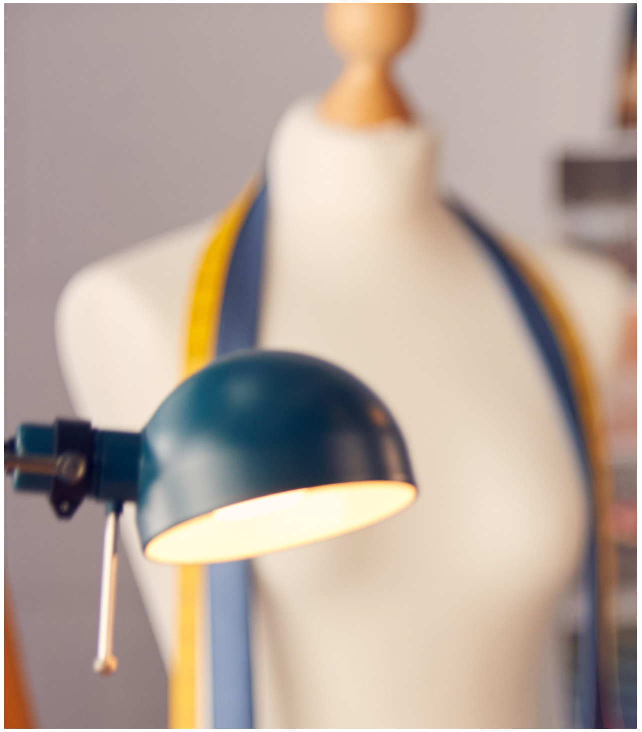
Sara has had to return her car to the finance company and has fallen into arrears for her personal rent and council tax. With money from her hairdressing only coming in sporadically, Sara is heavily reliant on income from Universal Credit and is struggling to pay her debts as a result. While some of her creditors have been understanding, the lender for her Bounce Back Loan has not been helpful. Sara has explained to her lender that she cannot afford to repay her Bounce Back Loan, but they is still demanding repayments. She has asked for more time to repay, but has been told she cannot access the Government's Pay As You Grow scheme as her business is no longer trading. The situation is causing a great deal of worry for Sara who feels that she needs a "lucky break".

Name and photograph has been changed to respect anonymity

WORRIES FOR THE FUTURE

Of the Business Debtline callers we surveyed, 78% said they were worried about the future of their business due to the impact of the outbreak.

When asked to look ahead to the one or two things they are most concerned about in relation to their long-term finances, respondents' answers painted a picture of competing financial concerns that overlapped both personal and business costs. Worries about repaying debts, keeping up with priority bills and when trade would recover to pre-pandemic levels were all frequently mentioned.



Looking ahead, I am worried about...

"The unpredictability of it all. I think it all depends on how soon money starts circulating in the system again, so people can afford to pay each other for goods and services."

"Paying credit off"

"Being able to pay my debts"

"Increasing expenses and the loss of the Universal Credit increase"

"Return of Lockdown due to further outbreaks. Loss of trade customers as Business support is removed."

"The uncertainty of it all. Will we have to go back into lockdown over the winter months?"

"When trade may start to lift again... how I will pay my rent/ be able to live in the meantime?"

"Repaying my Bounce Back Loan"

"Getting into more debt as a result of covid, and having to cease trading"

- Responses from Business Debtline clients to our survey

This uncertainty is borne out in responses to questions around future trading – 18% of respondents estimated that they would only be able to continue to trade for the next two to six months if their current circumstances don't change while almost two in five (38%) were not sure how long they could continue to trade for. This level of uncertainty about the future of some peoples' businesses, especially those who have experienced problem debt before and during the lockdown, shows how key ongoing support will be for those still struggling with the impacts of the virus.

Many people also fear the worst is not yet over. Two in five (42%) thought it very likely, and 34% quite likely, that they will experience another drop in income over the next year. It is therefore vital that Government, regulators, and creditors take this financial uncertainty into account to ensure those struggling have the support they need – including help to get out of debt safely, and to stabilise incomes to prevent financial problems getting worse.

THE CASE FOR FURTHER SUPPORT

From creditors and regulators

- Self-employed people and small business owners have been particularly hard hit by Covid, and many went into this crisis with limited or low financial resilience.
- Forbearance is therefore still needed in cases where customers report continued financial difficulty.
- It is important that creditors also recognise self-employed/small business customers as a particularly vulnerable group and in need of support tailored to their specific needs.
- We welcome FCA guidance for supporting consumer credit customers impacted by coronavirus so far, but this has not been matched in the support for business customers.
- In addition, there are real concerns around the affordability of Bounce Back Loans and a lack of clarity around their collection in cases where repayment is not affordable or the business is no longer viable.
- If these issues are not addressed, there is a real risk that otherwise-viable businesses will struggle to recover, and people could lose their livelihoods.

From Government

- For many self-employed people and small business owners, Covid-19 has led to not only a loss in income but an increased burden of debt and real concerns around their ability to keep trading.
- Government support measures to deal with the impacts of the outbreak were welcome and provided a much-needed lifeline to many.
- However, as these measures are lifted – and repayments on Government backed loans begin – many are likely to continue to struggle as they are faced with the financial aftermath of the outbreak.
- For those still in financial difficulty, it is therefore vital that the Government continues to provide the support they need to recover in the longer term.
- A case in point is found in the repayment of Bounce Back Loans – as the ONS predictions, and findings here, show many self-employed people will struggle with repayments with real consequences not only for their recovery but for the public purse.
- With self-employed people estimated to have contributed £316bn to the UK economy last year alone[26], supporting their recovery is vital not just for the individuals but for the recovery of the economy as a whole.

Recommendations

- HM Treasury and the British Business Bank should work with lenders to ensure there is a consistent, fair and affordable approach to recovering Bounce Back Loans, including publishing clear and consistent guidance on collection and forbearance for lenders to follow.
- Creditors (including firms and government departments) should offer specific forbearance to self-employed people struggling with Covid-related debts, and have a clear strategy on how to support self-employed people and small business owners in financial difficulty.
- To support self-employed people on the lowest incomes and those facing a continued impact on their business, the Department for Work and Pensions should review the support available for self-employed people, including reviewing the Minimum Income Floor in Universal Credit.

METHODOLOGY

Findings are based on a survey of 282 Business Debtline callers that ran online from the 31 August 2021 to the 30 September 2021. The survey was sent to a sample of 7169 Business Debtline who had contacted the service for advice between March 2020 and June 2021 - 282 opted to complete the survey. We also conducted qualitative interviews with five Business Debtline clients, to learn more about their experiences. Other findings presented are based on Business Debtline client data, based on all clients calling from March 2020 to March 2021, and annual client surveys.

REFERENCES

[1] Money Advice Trust *Back to business: Supporting people in sef-employment to bounce back from Covid-19*, December 2020

[2] Office for National Statistics (ONS) *Personal and economic wellbeing in Britain*, May 2021

[3] As of September 2021, 49% of Business Debtline callers cited Coronavirus as their main reason for cited for financial difficulty. Based on 2021 Business Debtline client survey

[4] Office for National Statistics (ONS) *Personal and economic wellbeing in Britain*, May 2021

[5] London School of Economics (LSE) *Covid-19 and the self-employed – ten months into the crisis*, March 2021

[6] Resolution Foundation *The Living Standards Audit 2021*, July 2021

[7] Resolution Foundation *The debts that divide us, Flash findings from a survey of families claiming Universal Credit*, February 2021

[8] Money Advice Trust *Taking care of business: Eight key challenges facing small business owners*, November 2018

[9] Joseph Rowntree Foundation *Dragged down by debt: Millions of low-income households pulled under by arrears while living costs rise*, October 2021

[10] Money Advice Trust *Taking care of business: Eight key challenges facing small business owners*, November 2018

[11] UK Government Cabinet Office *COVID-19 Response: Autumn and Winter Plan 2021*, 14 September 2021

[12] ACAS *Checking your employment rights*, accessed 22 October 2021

[13] The FCA *Guidance for firms on the fair treatment of vulnerable customers*, February 2021

[14] Money Advice Trust *Supporting business customers in vulnerable circumstances*, July 2018

[15] The FCA *Guidance for firms on the fair treatment of vulnerable customers*, February 2021

[16] Business Debtline client interview, conducted September 2021 - Name and photograph has been changed to respect anonymity

[17] Business Debtline client interview, conducted September 2021 - Name and photograph has been changed to respect anonymity

[18] For more information on this and the impact of the outbreak more widely for self-employed people, see our *Back to business: Supporting people in self-employment to bounce back from Covid-19* report, December 2020

[19] According to findings from our *Back to business: Supporting people in self-employment to bounce back from Covid-19* report, those who were newly self-employed and without access to the SEISS (before the change in eligibility rules) were much more likely to have claimed Universal Credit

[20] IFS *Fast choices by Government provide generous income support to most workers, but leave some with nothing and others with too much*, April 2020

[21] Findings from *Back to business: Supporting people in self-employment to bounce back from Covid-19* report support this, with one in four (26%) people surveyed who received help under the scheme still fell behind on household bills and personal credit commitments as a result of Covid-19

[22] House of Commons Library *Briefing on Coronavirus: Business Loans Schemes*, 23 July 2021

[23] National Audit Office *Investigation into the Bounce Back Loan Scheme*, 7 October 2020

[24] House of Commons Library *Briefing on Coronavirus: Business Loans Schemes*, 23 July 2021

[25] Business Debtline client interview, conducted September 2021 - Name and photograph has been changed to respect anonymity

[26] IPSE and Kingston University *The Self-employed landscape report 2020*, London: Kingston/IPSE

MONEY
ADVICE TRUST

Money Advice Trust

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

For more information about this report:

Email: **policy@moneyadvicetrust.org**
Website: **www.moneyadvicetrust.org**

JPMorgan Chase & Co.

This research was conducted by the Money Advice Trust with support from JPMorgan Chase. The figures presented have been analysed independently by Money Advice Trust. The views expressed here are not necessarily those of JPMorgan Chase.

JPMorgan Chase & Co. (NYSE: JPM) is a leading global financial services firm with assets of $3.7 trillion and operations worldwide. The Firm is a leader in investment banking, financial services for consumers and small businesses, commercial banking, financial transaction processing, and asset management. A component of the Dow Jones Industrial Average, JPMorgan Chase & Co. serves millions of customers in the United States and many of the world's most prominent corporate, institutional and government clients under its J.P. Morgan and Chase brands. Information about JPMorgan Chase & Co. is available at www.jpmorganchase.com.

As part of its firmwide strategy to drive an inclusive economic recovery, JPMorgan Chase has committed $125 million over five years to improve the financial health of those most in need by creating affordable and scalable products and services, supporting nonprofits that improve financial resilience, and boosting the financial health of its own employees.

The Money Advice Trust is a registered charity number 1099506.
A company limited by guarantee. Registered in England and Wales, number 4741583.
Registered office: Money Advice Trust, 21 Garlick Hill, London EC4V 2AU.