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BUSINESS  
DEBTLINE

# SHRINKING MARGINS

A spotlight briefing on the impact of the cost of living on callers to Business Debtline

May 2023

# SUMMARY

The impact of the rising costing of living continues to be felt across the UK. For small business owners, many of whom are still dealing with the residual impact of the Covid-19 pandemic, high costs have compounded the pressure on their business, and in many cases, personal finances.

This briefing provides a snapshot into the acute challenges faced by Business Debtline callers impacted by the high cost of living, and their worries for the future.

Findings from Simply Business show that last year 70% of small business owners cited rising costs as the biggest challenge facing their business.<sup>1</sup> Research by HSBC highlights the impact rising costs are having on the mental health of small business owners themselves. The findings show that over a quarter of small business owners surveyed (26%) cited economic pressures as a driver behind a decline in their mental wellbeing<sup>2</sup>. For many of the small business owners we support at Business Debtline, personal and business finances often overlap. A reduction in trade or income can have a direct impact on personal finances and in turn affect the mental health of the business owner.

Many of the people we help are facing difficulties from all directions. As their businesses continue to be impacted by high costs and reduced trade, their personal finances are also being hit by rising council tax, energy and other bills.

Our Business Debtline clients often experience heightened impacts during difficult financial periods. More than half (52%) are from low-income households of below £20,000 per year, of which one in five (18%) have an annual income of less than £10,000. Many went into the cost of living crisis with pre-existing debts, and many have yet to see their businesses fully recover from the impact of Covid-19.



**One in five (18%) Business Debtline callers say that their business failing** is the main reason for their financial difficulty. This is closely followed by the impact of Covid-19 (14%) and income that is too low for their basic needs (7%).

## Methodology

In this spotlight briefing we draw upon findings from our cost of living client survey. The results are based on a total of 192 Business Debtline clients. Base sizes vary across questions depending on whether respondents were eligible to answer.

Survey fieldwork was carried out between 24th November 2022 – 2nd January 2023, with questionnaires sent to all clients whose most recent contact with Business Debtline was during 2021 and for whom we had an email address and their consent to take part in a survey. The “self-selecting” nature of this exercise should be considered when interpreting the results.

Data on income, expenditure and debt types are based on findings from a survey of 568 Business Debtline clients, carried out in January and February 2023. Other client demographic data is based on all Business Debtline clients contacting the service by phone over the course of 2022, and where numbers are available.

# PERSONAL AND BUSINESS DEBTS COMPETING

The impact of rising costs has already taken a toll on many households. For small business owners with businesses still reeling from the impact of the Covid-19 pandemic the challenges are more acute.



**The amount our clients owe in business debts alone has risen by 43% to £37,434** since before the pandemic (2019).

There is also often an intertwining of business and personal finances.



**Almost a third (31%) of Business Debtline clients surveyed said they had fallen behind, or further behind, on one or more household bill in the last 12 months.**

The most common bills clients surveyed have fallen behind on are energy (19%), closely followed by council tax (15%), and food and groceries (12%) (see table 1).

## Nate's\* experience, Business Debtline client

My energy bill has gone up so much - from £70 per month to £162 per month. Yesterday they took out £262 emptying my bank account.

\*Name changed to protect anonymity

In each case, a higher proportion of Business Debtline clients have fallen behind on these three priority debts compared to when we carried out the same survey last year – for council tax this almost doubled from 8% in 2021.

And with the majority of our clients (62%) running their businesses from home, falling into arrears for household bills can have a direct impact on their business.

Falling behind on energy bills can severely impact the income of small business owners and that of their business. Arrears can build up, and if repayments aren't affordable then this can lead to more expensive prepayment meters or disconnection in some cases – with catastrophic consequences for the business and the income of its owner.

Added to this, many small business owners and self-employed people are facing higher business costs, at a time when the increased cost of living is leading to lower consumer spending.

**Table 1: Common bills clients surveyed have fallen behind on in 2022**  
(compared to 2021)



Energy

**19%** (12%)



Council Tax

**15%** (8%)



Food & Groceries

**12%** (7%)

# HOUSEHOLDS UNDER INCREASING PRESSURE

Many of our Business Debtline clients are facing difficult choices when it comes to meeting their essential needs.



Of the small business owners we surveyed, **more than half (57%) said they had gone without essential items like food, toiletries or clothing** in the six months prior because they could not afford them.

Small business owners' household budgets are often either closely linked, or completely dependent on, the income they receive from their business. And just as household costs have risen, so have their business costs.

But whilst amongst Business Debtline clients more broadly, personal incomes have increased by 5% in the last year, this is still out-paced by the rate at which costs have increased, with average personal expenditure up by 10% over the same period .

As incomes struggle to keep up with rising costs, and businesses continue to be impacted, many small business owners are turning to credit to make up the shortfall.



**A third (31%) of clients surveyed reported using credit in the last 12 months** to pay for essential costs such as energy or council tax.

It is not uncommon for Business Debtline clients to use personal credit to manage both their business and personal finances, and we've seen the amount people owe increase in the past year.



The average amount Business Debtline clients owe on personal overdrafts has increased by 22% since last year.

This overlap between personal and business credit can make it difficult to manage cash flow and budgets, and is something our advisers regularly encounter.

Coupled with the high cost of living, and the impact that it is having on many peoples's businesses, this adds to the pressure many are experiencing meeting their business and household costs.

Over a third of our Business Debtline clients (35%) have Bounce Back Loan debt - the third most common debt type amongst the people we help at Business Debtline, after credit cards and overdrafts.

Many are also dealing with other business loan and credit debts - where we have seen a sharp increase in the amounts owed - adding more difficulty to a challenging situation.

## Paul's\* experience, Business Debtline client

I can barely afford anything. I live off basic and tinned food as I'm unable to afford good food, so my health is compromised as I can't afford to eat healthy. I have a car that I pay for but I'm almost unable to use it because I can't afford the cost of running it. I can't afford to put the heating on, so my house is freezing and it will result in mould by the end of the winter so more health issues.

\*Name changed to protect anonymity

# FINANCIAL PRESSURES TO CONTINUE

Despite optimism from some businesses about recovery from the cost of living impacts<sup>3</sup>, and predictions for a better economic outlook by the end of this year<sup>4</sup>, many of the Business Debtline clients we surveyed did not share this same view when it came to their finances.



**Almost all Business Debtline clients surveyed (94%) said they were feeling additional pressure on their finances due to the rising cost of living.**

Three quarters (76%) said that they were worried about being able to pay for essentials like food, or clothing, as a direct result of rising costs. Most of the small business owners we help do not have premises, and instead rely on their energy supply at home to run their business. With energy bills remaining high, anxiety around affording these was common.



More than half (56%) of the small business owners we spoke to were worried about being able to afford their energy bills in the coming six months.

Similarly, other essential costs featured prominently in responses. Nearly a third (31%) of Business Debtline clients surveyed were concerned about affording their council tax payments, and 40% were worried about being able to buy food in the next six months.

## **Gemma's\* experience,** Business Debtline client

So far I have managed to live on one meal per day. The future looks bleak.

\*Name changed to protect anonymity

Interest rate rises are also likely to add to this pressure as the cost of using credit increases when repayment in full isn't an option. For small business owners who are struggling to keep up with repayments, this could lead to further difficulty down the line.

## **Ashley's\* experience,** Business Debtline client

I am seriously struggling with paying bills, and any further increase in the cost of living means another bill will go unpaid or I won't be able to feed myself. It is a very fine line between going hungry and paying my creditors. It is increasing my anxiety levels and driving me further into a dark world and a place I may never come back from.

\*Name changed to protect anonymity

# INCREASED BARRIERS TO RESOLVING DEBTS

Our Business Debtline advisers specialise in supporting small business owners with complex financial difficulties.

However, as many of the people we help are still dealing with the fallout from the impact of Covid on their business, higher costs are making it even more difficult to find a safe route out of debt.

As people's debt situations become more complex, and people's budgets are stretched even tighter, people have less (if anything) to put towards debt repayments. As a result they may find debts building up again as their incomes fail to keep up with the rising cost of essentials like food and energy. Debt advice has a vital role to play in supporting people in these situations, but it can be much more challenging to find a longer-term, sustainable solution to their debt issues.

Many of the small business owners we help are dealing with multiple debts. 45% of our clients have between 1 and 5 debts, and more than a quarter (27%) have more than ten.

At the same time, more than half of Business Debtline callers (56%) have a deficit budget – with not enough coming in to cover their essential needs. And their budget shortfall has also grown from an average of -£460 per month in 2022 to -£574 this year.

Given that a third (31%) of Business Debtline callers surveyed had used credit to pay for essentials due to a budget shortfall, it is not surprising that many of our clients are struggling to repay their debts.

For small business owners who are already struggling, the impact of the high cost of living is therefore likely to be felt for some time - both

at home and in their business, and for many, the situation is likely to get worse.

As the only dedicated debt advice provider for small businesses, it seems likely that we will see an increase in demand for our services with more people needing ongoing help as these challenges continue.

This is also likely to result in our advisers seeing more and more complex cases that are not easily resolved as many small business owners' budgets reach breaking point.

As the UK's Centre of Excellence for small business debt advice, Business Debtline continues to play a vital role in supporting small business owners in financial difficulty. We will also continue to assess what changes are needed to existing debt solutions to ensure there are a range of accessible and safe routes out of debt.

Find out more about Business Debtline at  
[www.businessdebtline.org](http://www.businessdebtline.org)

## References

1. **Simply Business**, *SME insights report*, July 2022
2. **HSBC**, *One in four SMEs say cost of living has impacted their wellbeing*, 6 December 2022
3. **British Chambers of Commerce**, *BCC Quarterly Economic Survey: Despite uptick in business confidence, most firms see no improvement to sales*, 4 April 2023
4. **Bank of England**, *Monetary Policy Summary and minutes of the Monetary Policy Committee meeting ending on 22 March 2023*, 23 March 2023

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### 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:

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