



Building Up Business

Building the financial skills for
small businesses to prosper

June 2024

MONEY
ADVICE TRUST

**BUSINESS
DEBTLINE**

Supported by
AVIVA

ABOUT BUSINESS DEBTLINE AND THE MONEY ADVICE TRUST

Business Debtline, run by the charity the Money Advice Trust, is the UK's Centre of Excellence for Business Debt and the only dedicated free debt advice service for people who are self-employed and small business owners.

In 2023, we helped over 28,000 small business owners and self-employed people over the phone and more than 8,500 via webchat. In addition, there were over 524,000 visits to the Business Debtline website, offering expert information about small business finances.

At Business Debtline, we typically support sole traders, or micro-businesses. We work with people to understand their financial situation, and the debts they owe. We help people to find their next steps and empower them to take action.

Research with Business Debtline callers in 2023ⁱ found that:

- 94% of callers are clear on their next steps after speaking to us for advice
- 87% followed all or some of the steps we gave and 85% made contact with their creditors
- 3 in 4 callers saw their business debts reduce or stabilise.

Alongside Business Debtline, the Money Advice Trust runs National Debtline, which helped over 90,000 people in 2023.

We are also an expert training provider, utilising our knowledge and expertise gathered over 30 years of working with people in debt. We train the free debt advice sector through Wiseradviser, delivering training to over 2,700 advisers in 800 advice agencies in 2023 alone. We also provide training and consultancy to creditor organisations to improve support for customers in vulnerable circumstances and have trained more than 40,000 staff in over 440 organisations, to date.

Snapshot of the small business owners we help



Three in five (62%) Business Debtline clients are **sole traders**, with the second most common trading status being private limited companies (29% of clients).



The majority (69%) of clients have **no employees other than themselves**, with one in ten (10%) having one or two employees, and 6% having three or four employees.



The majority (74%) operate their business **primarily from home**, with one in five (20%) having business premises.



The average household income of Business Debtline clients is **just under £22,000 per year** and, for many, the income from their business is the sole or main source of household income.

BUILDING UP BUSINESS: OVERVIEW

Running a small business can be a hugely rewarding experience and many of the people we help at Business Debtline are incredibly passionate about what they do.

However, it can also be very challenging, particularly if you are living on a lower income or cannot afford to pay for access to professional support. Our Business Debtline advisers frequently hear from small business owners in this situation, who are struggling to navigate their business finances. This can have a knock-on impact on financial resilience and increase the risk of a small business (and their owner) falling into difficulty.

Small businesses play a critical role in the UK economy. However, a lack of access to support with business finance skills and knowledge holds businesses back, creates a higher risk of financial difficulty and puts the business at risk of failing.

Drawing on our expertise from Business Debtline, and our experience as a training provider, we want to build the financial resilience of small business owners across the UK and help support more businesses to thrive.

That's what we're aiming to achieve through our Building Up Business programme.

Through this, we are seeking to understand more about the skills and confidence gap among lower-income small business owners, and the challenges they face when it comes to navigating their business finances. We want to develop stronger evidence on the impact of these challenges, including on the heightened risk of financial difficulty and business failure, as well as people's experiences accessing support.

We are pleased to be working with the University of Bristol, who will be conducting in-depth research with Business Debtline clients, as well as looking at the wider perspective of small business owners across the UK.

This new research will provide vital insight and inform recommendations on how to close the business finance skills and confidence gap and improve support for small business owners. However, this isn't just about what others can do. As part of the programme, we will also be developing and piloting a virtual learning offer for small business owners, to support them to manage their finances with confidence.

This briefing sets out some of our initial insight on the challenges small business owners face navigating their business finances, and the impact this can have. We also set out the areas we plan to explore during the programme, which will run throughout 2024 and into 2025.

We are keen to hear from other organisations and experts to understand your insight on the issues we are exploring. If you'd like to share your thoughts, please get in touch by emailing us at policy@moneyadvicetrust.org.

Building Up Business is kindly supported by Aviva, however all views expressed throughout the programme are solely those of Business Debtline / the Money Advice Trust.

CHALLENGES NAVIGATING BUSINESS FINANCES

People typically start a small business because they are passionate about the products or services they are providing, rather than a great desire to manage business finances. For some people, becoming self-employed or starting a small business may also come from necessity. For example, some people need or want the flexibility of working for themselves, to help manage caring responsibilities, because of a health condition or disability, or because of challenges in the employment market.

Many people therefore do not start their business from a position of having a high level of existing knowledge and skills to confidently manage their business finances.

- Half (51%) of Business Debtline clients surveyed said they were **not confident constructing a business plan** before they started trading.ⁱⁱ
- Two-fifths (40%) did not feel confident **calculating cash flow and profits**.
- 35% did not feel confident producing a **business budget**.
- Two in five (40%) were not confident in understanding their **tax obligations** and an even higher proportion (44%) did **not feel confident completing tax and VAT returns**.ⁱⁱⁱ

Many of the people we help at Business Debtline do not have access to professional advisers to support them with their business, beyond a basic bookkeeper or accountant – and some do not even have that.

This can make it challenging to navigate the often complex business finance issues people may face and results in a persistent skills and confidence gap in this area. We asked Business Debtline clients about their current confidence levels, now they are trading, and found that:

- More than a third (36%) of Business Debtline clients say they are still **not confident constructing a business plan**.
- More than three in ten (32%) did not feel confident around **accessing support with their business finances**.
- More than a quarter (28%) were not confident **using financial products and services for their business**.

What we'll explore

Through Building Up Business, we'll understand – and share - more about the current levels of financial skills, knowledge and confidence among lower-income small business owners, and the factors that impact this. We are keen to explore more about the barriers small business owners face in navigating their business finances and whether, and how, this differs between different groups.

CONFIDENCE LEVELS AMONG BUSINESS DEBTLINE CLIENTS ON KEY BUSINESS SKILLS^{IV}

	Level of confidence before trading		Level of confidence now	
	Confident	Not confident	Confident	Not confident
How to do a business budget	65%	35%	74%	26%
How to calculate cash flow and profits	60%	40%	76%	24%
Constructing a business plan	49%	51%	64%	36%
Using financial products and services for your business	67%	34%	72%	28%
How to access support with your business finances	55%	45%	68%	32%

IMPACT ON FINANCIAL RESILIENCE

Challenges navigating business finances can have a significant impact on small business owners' financial resilience, and lead to a heightened risk of financial difficulty.

We spoke to Business Debtline advisers about the key issues the small business owners they speak to face in managing their business finances, and the impact this has on them.

What we'll explore

These are just some of the examples we have heard about from Business Debtline advisers.

Through the research, we are aiming to understand more about the link between business finance skills and confidence levels and financial resilience, including how challenges navigating the system may lead to financial difficulties.



Difficulty understanding and navigating the tax system is a key issue Business Debtline advisers see. People can face challenges knowing whether and when to register with HMRC, understanding their tax liabilities and completing tax returns. This can lead to people not putting enough money aside to cover tax bills, missing deadlines or failing to meet the requirements on them – leading to tax debt and penalties.



Understanding trading statuses, and which is right for an individual and their business is also a key challenge. Advisers told us that people don't always know what their trading status is, or end up setting up as a limited company despite this not being the right thing for them. This can lead to confusion about where liabilities sit, especially for business loans, credit products and other debts.



Uncertainty over personal versus business liabilities may leave small business owners with credit commitments they cannot afford, and facing demands for repayment that they are struggling to meet.



Not having access to a specific business account (or other products) can lead to a lack of separation between personal and business finances, exacerbating other issues around liabilities and payments and meaning difficulties in the business can quickly impact on people's personal finances.



Advisers at Business Debtline also highlight that some people they speak to don't view themselves as running a business, for example landlords with Buy-to-let properties or delivery drivers. This means they may not know about, or understand, the tax requirements on them, leading to penalties or fines.



Challenges putting together a business budget can make it harder for people to forecast income and take effective decisions about the prices they charge, including when costs rise – as we've seen recently. Without this, the longer-term sustainability of the business may be compromised.

Businesses, particularly very small ones, don't always know where to go for help with their finances. In our initial conversations, people from across the small business finance sector described the current system of support as being 'fragmented' and highlighted that small businesses may find it challenging to locate and access the support they need.

From 1992 to 2012, the Government-funded Business Link service provided a form of one-stop shop for business support, including advice on a range of issues around business finances and management. Business Link was replaced in 2012 with information on gov.uk, accompanied by dedicated Business Support Helplines in each of the nations of the UK. In 2023, the Insolvency Service also launched a Director Information Hub^y, intended to provide a range of guidance for company directors.

In England, Local Enterprise Partnerships have also been responsible for providing elements of business support, including through local Growth Hubs. From April 2024, Local Enterprise Partnerships will no longer be funded by central government and their functions will transfer to local and combined authorities – providing both an opportunity and potential challenge around business support in England.

The Office of the Small Business Commissioner also provides advice on payment issues, including late payments – which we know can be a key issue for small businesses. Banks and lenders may play a role in providing support, although not all small business owners will have business bank accounts or credit products. In addition, the traditional link between a small business owner and local bank branch no longer exists to the same extent as in previous decades. Small business owners may also turn to trade bodies, formal and informal business networks and family and friends for advice on business finances.

We are keen to explore the effectiveness of the current provision of business finance skills support. We want to understand how far this meets the needs of lower-income small business owners, amid concern that they may not always be getting to the support they need, or may be finding it too late. Our advisers at Business Debtline are often helping people understand their business finances, alongside providing debt advice, but by this point it may be too late – the business, and their owner, are already in financial difficulty.

What we'll explore

We'll be exploring the experiences of lower-income small business owners in finding and accessing help with their business finances. We'll be looking to identify key intervention points where support can be offered and the opportunities that exist to improve the awareness, access, and effectiveness of support for this group of small business owners.

We'll also use this insight to develop and pilot a free, virtual learning offer for small business owners, to support them to manage their business finances with confidence.

SHARE YOUR VIEWS

As part of our Building Up Business programme, we are keen to hear from organisations with insight and expertise into the challenges small business owners face navigating their business finances, and the opportunities to improve the provision of business finance skills support.

If you have thoughts or research on the areas of interest set out in this briefing, we'd love to hear from you. You can get in touch by emailing us at policy@moneyadvicetrust.org.

REFERENCES

- i Business Debtline impact survey, 2023.
- ii Figures, unless otherwise stated are taken from Business Debtline Annual Client Survey, conducted December 2023
- iii Survey of Business Debtline clients with debt to HMRC, conducted July 2023.
- iv Business Debtline Annual Client Survey, conducted December 2023. Figures may not add up to 100% due to rounding.
- v For more information, see: www.gov.uk/guidance/director-information-hub

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

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.

© Money Advice Trust 2024