Written evidence submitted by Money Advice Trust

Executive summary

- The millions of small businesses run by self-employed people across the country will be critical the economic recovery from coronavirus. However, without dedicated action, the growing personal and business debt burden that many are experiencing risks hampering their ability to get their businesses back on track.

- Almost one in three (29%) sole traders and small business owners (1-9 employees) surveyed as part of Money Advice Trust research had fallen behind on one or more household bill, business bill or credit commitment, as a direct result of the financial impact of the coronavirus outbreak.[1]

- Our research with self-employed people across the UK[2] finds that, despite access to support being fairly evenly distributed geographically, there is variation in the proportion falling behind on bills or credit depending on the region they live in, with the highest rates being seen in the North East, London and the West Midlands. This suggests support has not been as effective in keeping people out of coronavirus-related debt in some areas.

- As has been well-documented, some of those who have been ineligible for support have experienced significant difficulties in navigating the financial impact of the outbreak. Our research found that 77% of self-employed people who expect to need debt advice in the next year were people who had not received the Self-employment Income Support Scheme (SEISS) grant.[3]

- We therefore strongly support calls for the Government to introduce a **discretionary grant scheme specifically to support those excluded from the SEISS** who are still struggling with the financial consequences of Covid-19.

- Government-backed coronavirus loans and payment deferrals – for example on tax bills – have proved a valuable help. However, there is now significant focus on the repayment of these loans and deferrals and the sustainability of small business debt.

- Our research found that more than a quarter (29%) of those who had received a government-backed coronavirus loan are not confident that they will be able to repay the loan in full; while 7% of those who had deferred tax repayments did not expect to be able to afford to pay it when due and 27% expected to only to be able to make partial repayments.[4]

- As the Committee has previously highlighted, it is vital that the Government think creatively to develop solutions to reduce corporate indebtedness, including **actively considering the use of a Student Loan-style repayment scheme for small businesses who have taken government-backed loans they cannot afford to repay.**

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[1] UK-wide survey of 2,508 sole traders and owners of small businesses (employing between 1-9 people). The polling was commissioned by the Money Advice Trust and conducted by Opinium, with fieldwork taking place online between 30th September and 19th October 2020. For more information, see our full report: *Back to Business: Supporting people in self-employment to bounce back from Covid-19*

[2] Ibid

[3] Ibid

[4] Ibid

- HM Treasury and the British Business Bank should also ensure that **forthcoming guidance on the recovery of coronavirus business loans provides 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.
- **HMRC must also ensure they adopt a fair and affordable approach to collecting debts owed to them** – including deferred tax debts – and may need to be prepared to offer additional forbearance and flexibility over that which has already been announced in the Winter Economic Plan.[5]
- With ongoing restrictions and public health measures in place, the road to recovery is likely to be longer for many people in self-employment. Our research found that almost four in 10 expect it to be more than a year before their business income returns to pre-covid levels, while six in 10 (61%) think it is likely they will experience another drop in income due to coronavirus.
- The Government therefore need to have a longer-term plan to support those who are self-employed and running small businesses to recover from the crisis.
- 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 strategy should include consideration of the role of training, the provision of accessible business and financial advice, and financial support, and should form a key part of the Government's efforts to support the country's economic recovery from the crisis.

1. About the Money Advice Trust

1.1 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 self-employed people and small business owners.

1.2 Business Debtline offers practical self-help – empowering businesses to deal with their creditors and put solutions in place to resolve their financial difficulties. Last year, we helped over 52,000 people through the service, and have provided free debt advice and support to self-employed people and small business owners over the phone and via webchat throughout the Covid-19 outbreak.

1.3 Currently, around 60% of callers to Business Debtline are citing coronavirus as the main reason for their financial difficulty.

1.4 Alongside our debt advice services, 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.

[5] The Winter Economic Plan included an announcement that people will be able to repay deferred tax payments through 11 interest-free payments spread across the 2021-22 financial year.

2. Introduction

2.1 We welcome the opportunity to respond to the Committee's call for evidence on the economic impact of coronavirus.

2.2 Unless otherwise stated, the statistics in this response are taken from Money Advice Trust research with 2,508 sole traders and small business owners across the UK.[6] We also draw on insight from our Business Debtline service, which helps small businesses and self-employed people facing financial difficulty.

2.3 In our response, we predominantly focus on two questions from the call for evidence:

- How effective is the Government support to businesses and individuals across different regions and sectors?
- How large a problem is corporate indebtedness?

2.4 We would be pleased to provide further information to the Committee, and would welcome the opportunity to give oral evidence to the inquiry.

2.5 For more information about this response, please contact Grace Brownfield, Money Advice Trust Public Affairs and Policy Manager, on 07769 166539 or grace.brownfield@moneyadvicetrust.org.

3. The impact of Covid-19 on the finances of self-employed people

3.1 The drop in income many people in self-employment have experienced as a result of the Covid-19 outbreak has unsurprisingly impacted upon their ability to pay their bills.

3.2 Almost one in three (29%) sole traders and small business owners (1-9 employees) surveyed as part of the Money Advice Trust's research had fallen behind on one or more household bill, business bill or credit commitment, as a direct result of the financial impact of the coronavirus outbreak. Many of these people were not in financial difficulty before - one in six (15%) had not experienced any debt problems in the year before the pandemic hit.

3.3 In many instances, despite the impact of Covid-19 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. The proportion of self-employed people with arrears on household bills or credit increased from 17% before March 2020 to 25% in October 2020, with people owing an average of £1,873 in total.

3.4 The most common personal debt accrued due to the outbreak was on personal credit cards (9%) closely followed by council tax (7%) and rent (6%).

3.5 Comparatively, the proportion of people falling behind on business bills or credit commitments increased from 9% in the year before the outbreak (to March 2020) to 14% in October 2020. The average total amount owed was higher than on household bills, however, with each individual owing an average of £3,783 in business arrears. The most

[6] UK-wide survey of 2,508 sole traders and owners of small businesses (employing between 1-9 people). The polling was commissioned by the Money Advice Trust and conducted by Opinium, with fieldwork taking place online between 30th September and 19th October 2020.

common business bills or commitments that people were falling behind on were wages (4%), payments to suppliers (3%) and business VAT (3%).

3.6 While it is not unusual for self-employed people to take on debt in the course of their business, the number reporting falling behind on essential business or household bills is particularly worrying. Indeed, looking ahead, over a third (34%) of people expected to face difficulty paying household bills in the next 6-12 months, and just under three in 10 (29%) expected to struggle with business bills. This suggests the debt burden on sole traders and small businesses is likely to grow further.

4. Effectiveness of support

4.1 The Committee's call for evidence asks specifically about access to, and the effectiveness of, support for people and businesses across different regions.

4.2 Within our research, we found that access to the flagship Self-employment Income Support Scheme was fairly evenly spread across each region.

4.3 In terms of government-backed business loans, those in Yorkshire and Humberside, and in London were more likely to have received a Coronavirus Business Interruption Loan (CBILs). Receiving a Bounce Back Loan was more evenly spread, although those in the East of England, Wales and Scotland were least likely to have accessed this.

4.4 Finally, there seemed to be greater variation in terms of access to support administered through local authorities such as coronavirus business grants and business rates relief. Small business owners in the North of England and the Midlands were more likely to have received these forms of support, compared to London, the East, South East and South West of England.

4.5 In terms of the effectiveness of support, we consider the proportion falling behind on bills and credit commitments to be a key indicator of whether support is working effectively in helping to stabilise people's incomes and keep them out of financial difficulty while their business is being impacted by ongoing restrictions.

4.6 As Table 1 (below) demonstrates, our research found there is variation in the proportion falling behind on bills or credit depending on the region they live in. For example, a much higher proportion had fallen behind in the North East and in London, whereas those in the East of England were much less likely to have fallen behind. This suggests support has not been as effective in keeping people out of coronavirus-related debt in some areas.

Table 1: Proportion of sole traders and small business owners behind on household and business bills, by country and region[7]

County or region	Proportion behind on	Proportion behind on

[7] UK-wide survey of 2,508 sole traders and owners of small businesses (employing between 1-9 people). The polling was commissioned by the Money Advice Trust and conducted by Opinium, with fieldwork taking place online between 30th September and 19th October 2020. Bases for each country/ region as follows: England (2163), North East (79), North West (259), Yorkshire and Humberside (207), East Midlands (191), West Midlands (209), East of England (228), London (314), South East (406), South West (270), Scotland (175), Wales (129), Northern Ireland (41) – see footnote 8.

	household bills / credit	business bills / credit
England	25%	14%
North East	34%	18%
North West	24%	16%
Yorkshire and Humberside	25%	14%
East Midlands	21%	12%
West Midlands	28%	17%
East of England	18%	9%
London	31%	19%
South East	21%	12%
South West	26%	16%
Scotland	25%	14%
Wales	28%	12%
Northern Ireland[8]	29%	15%

5. Falling through the cracks

5.1 A quarter (25%) of people in our research had received a grant through the Self-employment Income Support Scheme (SEISS), and many were positive about the experience of applying for it and the help it had provided. However, as has been well documented – including by the Committee itself - the SEISS has not been available to everybody and those who are excluded are facing particular challenges.

5.2 Our research found, for example, that the majority (77%) of people who expected to need debt advice in the next year were people who had not received the SEISS.

5.3 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 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.

5.4 However, despite these welcome measures, many are struggling to get by on Universal Credit alone. Almost half (47%) of those 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. This suggests it is not always an effective form of support in terms of replacing lost income and preventing financial difficulty for self-employed people affected by the outbreak.

5.5 We are grateful to the Committee for their work to highlight the issues faced by those excluded from the SEISS, and to secure additional support. While we recognise that the

[8] Please note small base for respondents from Northern Ireland (41) so figure should be treated with caution.

SEISS criteria will not now be changed, there is a strong case for **the Government to introduce a discretionary grant scheme specifically to support those excluded from the SEISS who are still struggling with the financial consequences of coronavirus.**

5.6 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.

5.7 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.

6. Corporate debt: Experiences of small business owners

Government-backed coronavirus loans

6.1 As of 20th October 2020, £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.[9]

6.2 There has been increasing focus on the scale of corporate indebtedness and the ability of small businesses to repay these loans, and our research suggests this is an area of concern. Our research found that more than a quarter (29%) of those who had received a government-backed coronavirus loan were not confident that they will be able to repay the loan in full.

6.3 Our research also found that those who were not confident in repaying their coronavirus business loan were much more likely to say they expected to need to take out further credit in the next year. 70% of those who were not confident repaying their loan expected to need to take out further credit to cover business costs in the next 6-12 months, compared to 43% who were confident repaying their loan.

6.4 Without targeted action, there is a real risk that businesses that would otherwise have been viable had the coronavirus outbreak not hit will face growing indebtedness, and may be left with a complex web of debts that threaten the future of their business.

6.5 The Chancellor has introduced welcome flexibility in the form of new repayment rules through the ‘Pay as You Grow’ scheme, which should help some businesses. These new rules 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).[10]

[9] House of Commons Library Briefing (16 November 2020) Coronavirus: Business loan schemes.
[10] HM Treasury (24 September 2020) Chancellor outlines Winter Economy Plan

6.6 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. There is also a risk that it could push small business owners to take on more debt to finance loan repayments.

6.7 The Government has stated that guidance to lenders of government-backed loans regarding collection is forthcoming. **As part of this guidance, 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 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 business owners to debt advice.

6.8 **The Government should also 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.

6.9 We also support the previous recommendations made by the Committee that the Government need to think creatively to develop solutions to reduce corporate indebtedness, including **actively considering 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.

<u>Tax payment deferrals</u>

6.10 Many self-employed people and small businesses have benefitted from deferrals on tax payments, such as VAT and National Insurance, put in place by HMRC during the Covid-19 outbreak - to help people manage cash flow challenges caused by the impact of the outbreak.

6.11 More than one in five (21%) of those in our research had taken the option to defer tax payments. 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, helping to give people some vital breathing space during the pandemic.

6.12 However, there is a significant risk that, if people's businesses and incomes have not recovered sufficiently by the time these deferred payments are now due, many could struggle to meet their payments. Our research found that, of those who had deferred tax repayments, 7% did not expect to be able to afford to pay it when due and 27% expected to only to be able to make partial repayments.

6.13 It is therefore welcome that the Government announced, as part of the Winter Economic Plan, the option for people to repay deferred tax payments through 11 interest-free payments spread across the 2021-22 financial year (New Payment Scheme[11]). This will help ensure that those who cannot afford to settle their deferred tax bill in full get appropriate time to repay.

6.14 However, the Government will need to be alert to the fact that some people will still be experiencing a significant impact on their business next year and that some will struggle to pay, even with this additional flexibility in place. This is likely to be particularly the case if public health restrictions are still in place when the first payment must be made in March 2021 (in order to qualify for the New Payment Scheme).

6.15 Our research found that almost four in 10 small business owners and self-employed people expect it to be more than a year before their business income returns to pre-covid levels, while six in 10 (61%) think it is likely they will experience another drop in income due to coronavirus. Two thirds (66%) think it is likely or very likely they will continue to experience reduced trade in the next 6-12 months.

6.16 Strikingly, almost one in ten (9%) did not ever expect their business income to return to pre-covid levels, suggesting that their business has been permanently and irreversibly damaged by the outbreak.

6.17 For many, the financial impact is far from over and this needs to be a key consideration as the Government and creditors consider the support small businesses and self-employed people will need to recover from this crisis.

6.18 If creditors do not take a flexible and supportive approach to collecting debts incurred during the pandemic, small business owners could face significant hardship and the viability of their business could be put at risk.

6.19 This is particularly worrying when it comes to debts owed to government, such as tax debts, as our wider research[12] 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.

6.20 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.[13]

6.21 Fair and affordable collection will help ensure people and businesses can repay their debt without being pushed into further financial difficulty. We would like to see **HMRC putting in place clear and easily accessible forbearance options for small businesses and self-employed people facing ongoing financial difficulty**.

6.22 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

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[11] HMRC (2020) *Pay VAT deferred due to coronavirus (COVID-19),* https://www.gov.uk/guidance/deferral-of-vat-payments-due-to-coronavirus-covid-19

[12] Money Advice Trust (November 2020) *Levelling up: The case for reforming government debt collection*

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

should also be the option to temporarily pause repayments where they are clearly unaffordable for the individual.

6.23 **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.[14] 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.

7. Delivering a Covid-19 self-employment recovery strategy

7.1 The millions of small businesses run by self-employed people across the country will be critical the economic recovery from coronavirus. However, without dedicated action, the growing personal and business debt burden that many are experiencing risks hampering their ability to get their businesses back on track.

7.2 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 people in self-employment who are still desperately trying to navigate their business through the impact of the outbreak.

7.3 **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.**

7.4 This strategy should include consideration of the role of training, the provision of accessible business and financial advice, and financial support, and should form a key part of the Government's efforts to support the country's economic recovery from the crisis.

7.5 Further findings and detail from our research with self-employed people can be found in the Money Advice Trust's report *Back to Business: Supporting people in self-employment to bounce back from Covid-19.*

December 2020

[14] Cabinet Office (June 2020) *Fairness in government debt management: a call for evidence*