

Going for Broke

How self-employed people move in and out of debt



**citizens
advice**

Contents

Executive Summary	01
Introduction	03
Methodology	04
1: Rise of low-income self-employment	06
2: Starting up	08
3: The ups and downs of daily business	11
4: The impact of debt	16
5: Seeking help	22
Recommendations	25
Appendix	28

Executive summary

This report draws on new analysis of national data, in-depth qualitative interviews and survey research to explore the causes and impact of debt among self-employed people.

Self-employed families are nearly twice as likely as families where all adults are employed¹ to be behind with a household bill, and also more likely to be in poverty². They also have larger mortgage debt than employees, and a slightly greater share report that their mortgage payments are a heavy burden. Self-employed people who experienced debt are also less likely to have planned and prepared thoroughly before they went into self-employment.

We found that start-up costs were sometimes funded from redundancy payments or credit obtained while in employment. Many of those who ended up in debt found that business went well, initially, and they felt optimistic that their business would continue to grow. Not all of our participants used 'good times' to save for the future. Unexpected financial shocks, (such as illness or relationship breakdown) prevented some from working or restricted the amount of work they could do. These situations could be difficult to manage and, for some, the lack of a financial cushion to fall back on led to debt. In these situations, debt advice taken early could have helped to reduce the impact of such shocks.

As previous research has shown, some people can find debt difficult to cope with and it can impact on their wellbeing and relationships³. So how do the experiences of self-employed people in debt differ from others? Our analysis shows that self-employed people are slightly more likely to find debt a heavy burden than employees⁴. In order to cope, we found that some self-employed people start working longer and longer hours to try to work themselves out of debt. Since self-employed people tend to work alone, being in debt can feel particularly isolating, and we found relatively weak support networks, lower awareness of help and advice, and reluctance to take it up. Those who accessed formal debt services tended to seek help only once they were in a crisis situation. Looking to the future, many of our participants were optimistic and, mostly, pragmatic. While some had decided to leave self-employment, others had set themselves a future review point to consider whether or not to continue. Others were coming up with creative solutions, such as diversifying their business.

¹ This refers to families where all (either a single adult or both in a couple) are in work and at least one is in full-time work

² Measured as 60% of median household income

³ University of Bristol Personal Finance Research Centre. [Understanding financial difficulty: Exploring the opportunities for early intervention](#). 2011

⁴ The proportion of people reporting that their debt is a heavy burden reaches just under a quarter (24%) amongst self-employed people aged 45-54, compared to 21% of employees in this age group

We found that self-employed people experience personal debt differently to the general population, and we would suggest that there are a number of opportunities to improve security for self-employed people in this area:

- **Recommendation 1: Expansion of free or low-cost business skills courses for self-employed people.**
- **Recommendation 2: Creation of one-stop-shop advice for self-employed people to get advice about business-related issues**
- **Recommendation 3: Development of more responsible credit products tailored for self-employed people that do not exclude them on the basis that they are self-employed.**
- **Recommendation 4: Debt advice agencies could work more extensively with creditors to reach out to self-employed people and raise awareness of free-to-client help and advice**

Introduction

Our recent report *'Who are the self-employed?'*⁵ found that fewer than a third of families where someone is self-employed have savings of £8,000 or more. This is significant given the uncertain nature of self-employment. We also found that self-employment has increased almost 40%⁶ since 2000, but at the same time, median incomes among self-employed people have fallen.

This raises questions about security for self-employed people. We wanted to find out more about what it's like to be self-employed and the impact this has on people's lives, with a view to helping ensure that self-employment is a secure, viable option for those who pursue it.

Specifically this series of reports set out to explore self-employment and:

- family life;
- pensions; and
- debt.

This report is the last in the series and explores attitudes towards, and experiences of, personal debt⁷. We wanted to find out more about how, why and when self-employed people experience debt and what help and support is available to them should they need it. From this, we consider how self-employed people in debt can be better supported in future both in terms of dealing with, and preventing, personal debt.

Acknowledgements

We would like to thank the New Policy Institute (NPI) for their analysis and YouGov for carrying out the polling. We would like to thank colleagues at Citizens Advice and from local Citizens Advice offices who provided input, advice and guidance.

We would like to thank the debt advice organisations that provided valuable insight. Special thanks to Stewart Dick at Payplan, Claire King at the Money Advice Trust and Robbie de Santos at Stepchange Debt Charity.

We would also like to thank all respondents to the surveys and those who participated in the in-depth interviews, without whom this research would not have been possible.

⁵ Citizens Advice. [Who are the self-employed?](#) 2015

⁶ Ibid

⁷ In this report 'debt' refers to personal debt, rather than business loans

Methodology

Aims and objectives

This study used a mixture of qualitative and quantitative research in order to investigate the experiences of self-employed people in debt. Specifically it aimed to explore:

- The causes of debt among self-employed people and how these experiences might differ from other people's experiences of debt;
- The impact of debt, and the extent to which self-employed people are able to manage their debt with a fluctuating income; and
- The barriers to, and experiences of, self-employed people seeking debt help and advice.

Qualitative approach

To explore these issues in detail we undertook ten in-depth qualitative interviews with self-employed people who had experienced debt caused by self-employment. Participants were specifically recruited because they had experienced debt due to being self-employed and were either in debt at the time of the interview or had recent experience of debt. All interviews took place between August and October 2015.

Qualitative research is intended to be illustrative rather than statistically representative - it is not, and cannot attempt to be, representative of any given population. However using quota sampling, participants were carefully recruited to *reflect* the characteristics of the self-employed population as much as possible. To further help ensure robustness of the sample, six of the ten participants were recruited by Criteria Fieldwork, and we recruited the remaining four through social media. All participants were members of the public who had not necessarily had prior contact with Citizens Advice. Please see the appendix for a demographic breakdown of participants.

All interviews were conducted face-to-face. Interviews were clustered in three regions to ensure a reasonable geographical spread: the South East, East Midlands and South Wales.

Quantitative approach

Citizens Advice commissioned the New Policy Institute (NPI), to conduct new analysis of national data relating to self-employment. They analysed the data from

the Wealth and Assets Survey (2010/12) and Family Resources Survey (2012/13-13/14),⁸ some of which are reported on here.

The report also includes data from a question taken from a poll that Citizens Advice commissioned from YouGov. The poll surveyed 1,303 working adults between the 9th and 15th November, 2015. The achieved sample consists of 653 employees and 650 self-employed people, enabling us to compare findings between the two samples.

To help ensure robustness of the sample, YouGov set quotas on age, gender and region for the self-employed sample, and on gender and type of business (private / public / voluntary sector) among employees. Data were not weighted.

⁸ Both ONS publications

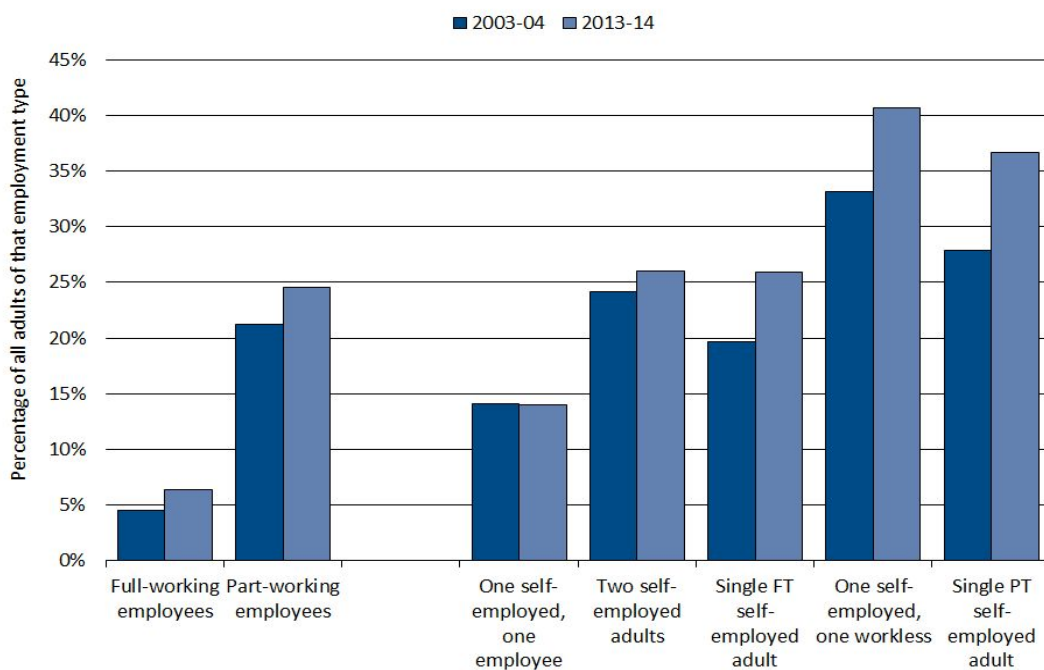
1: Rise of low-income self-employment

This chapter looks at the changing face of self-employment over the past decade and the implications this has for self-employment and debt.

Alongside the rise in self-employment over the last decade, self-employed people are working in increasingly diverse industries and with more variable incomes. In particular, there have been large increases in self-employed people working in lower wage occupations including elementary occupations (up by 110,000), and caring, leisure and other services (up by 90,000)⁹.

As such, self-employed families are more likely to be in poverty than full-working¹⁰ employee families¹¹. Only 6% of people in full-working employee families are in poverty, whereas the lowest poverty rate among self-employed families is 14%, and this is in a family with one employee and one self-employed person.

Figure 1: Low income rates by employment status¹²



Source: Households Below Average Income, DWP.

Our new analysis shows that while self-employed households are more likely to own their home outright than employees (30% compared to 17%), among those households with a mortgage on their main residence, self-employed households have slightly more mortgage debt. The median mortgage debt for self-employed

⁹ Citizens Advice. [Who are the self-employed?](#) 2015

¹⁰ Households in which adults are working full time

¹¹ Measured as 60% of median household income

¹² Citizens Advice. [Who are the self-employed?](#) 2015

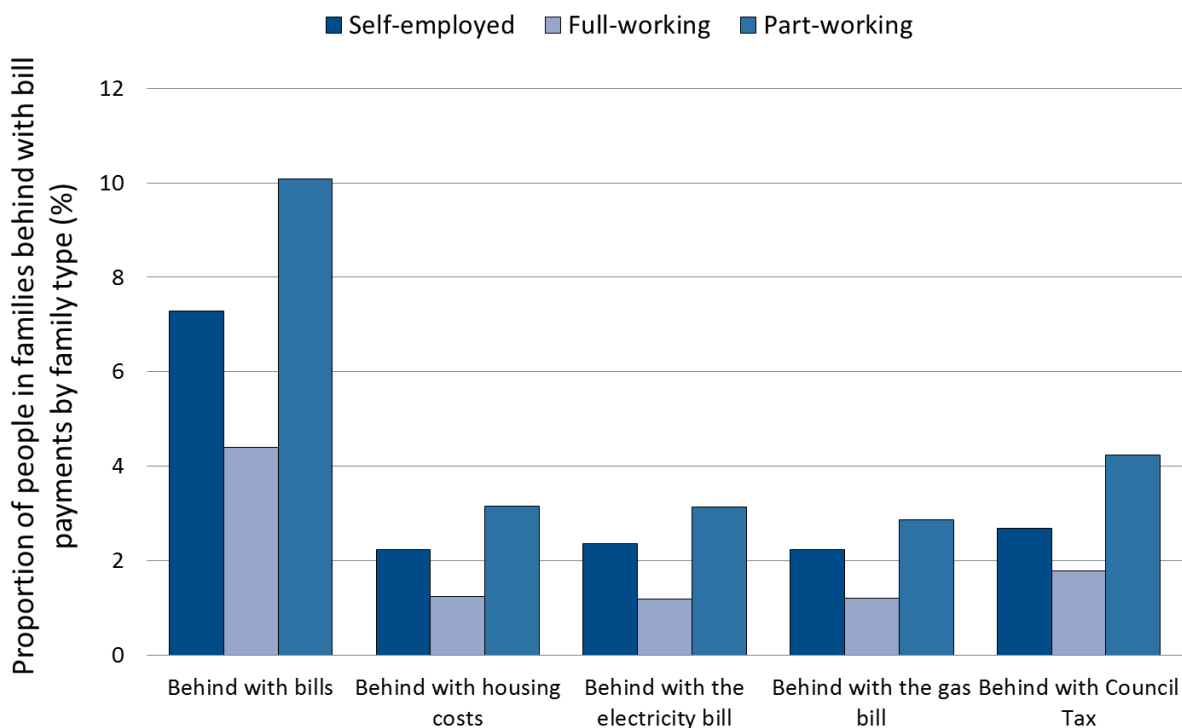
households is 8% higher than for employee households, on the latest available data. In 2010/12, 15% of self-employed households who were buying with a mortgage reported that their mortgage payments were a heavy burden.

Additionally, in line with the national trend, the number of self-employed people living in insecure, private rented accommodation has more than doubled in a decade¹³. While self-employed earnings have dropped by 22% since 2008¹⁴, rental prices have risen by almost 10% across England in the same time period¹⁵.

Analysis of the Family Resources Survey shows that 7% of self-employed families¹⁶ were behind with paying a household bill, almost double that of full-working families (4%) in 2012-2014. On balance, self-employed families are more likely to be in arrears than families where all adults are employed, but they are generally better off than families who rely on part-time earners, or where one member of a couple is not in work.

The picture emerging from this contextual data, and our earlier research, is that self-employment has become more precarious in recent years, and for some, this insecurity can contribute to debt.

Figure 2: Proportion of people in a family behind with a bill payment



Source: Family Resources Survey. Data are an average for 2012/13 and 2013/14.

¹³ Ibid

¹⁴ ONS *Self-employed worker in the UK*. 2014

¹⁵ ONS. *Index of Private Housing Rental Prices*. 2016

¹⁶ This refers to families where all (either a single adult or both in a couple) are in work and at least one is in full-time work

2: Starting up

This chapter discusses the process and challenges of starting up - the funds required and the advice that self-employed people seek before they start working for themselves.

Risks while becoming self-employed

As shown in our previous work, people become self-employed either because they make a positive decision to do so; or because an opportunity arises; or because they feel they have few other options. Many of the participants in this study fell into the last two categories. This meant that they were less likely than other self-employed people to have planned in depth for what self-employment would be like and prepare accordingly. Nonetheless, they did not take the decision to become self-employed lightly. Some entered self-employment progressively, testing their abilities as they went along by taking on small jobs or juggling self-employment with their 'day job' before deciding to make it their main occupation.

"I could have made the leap earlier, but I felt that, as a single parent I needed to know my income" **Annabel, therapist, London**

Many of the interviewees worried about the financial instability of self-employment. This was most acutely felt where they had left stable employment to branch out on their own. For most, however, this was coupled with feeling enthusiastic and hopeful, particularly for those who found their previous job unsatisfying.

"[It was] scary, but I really wanted to do it." **Annabel, therapist, London**

The enthusiasm was still tempered by a feeling of insecurity and concerns about the risk of not knowing what their earnings were going to be.

"It's a worry, ain't it? Because when you get up on a Monday morning you know you're being paid, whereas when I get up on a Monday morning I've got nothing."

Dan, will writer, Nottingham

Funding start-up

Many of our participants had high start-up costs or overheads associated with their work. Investing in start-up costs, particularly if they have had to borrow in order to do this, means that these people are starting out on the back foot. We found that skilled tradespeople, who tend to have on-going overheads, can find this particularly challenging.

Those we spoke to working in skilled trades may have had to buy (or in some cases borrow in the short-term), equipment and workspace. We found that these people were keen to quickly use some of their early profits to reinvest in the business, which is essential to ensure they were able to continue earning and growing the business.

"As the jobs got bigger, I needed to wait to have the money to buy things. If I had no wages, I had no money and I couldn't buy things... I had a couple of credit cards that I used in order to get fuel, in order to be able to get to work, up to 35 miles every day"

Mark, landscape gardener, Swindon

Two of the skilled tradespeople we spoke to felt they were only able to start working for themselves due to the generosity of friends lending them equipment and workspaces. Furthermore, we found that for some, start-up costs can be significant (as they often include one-off costs for expensive specialist equipment) and so can take longer than expected to pay off: *'I thought I'd have paid it off by now'*.

Among those we spoke to, start-up costs tended to be funded by credit - most often by credit card and overdrafts which were obtained while they were in employment. A couple of others used their redundancy payments. Most of those we spoke to did not spend this money lightly. They were acutely aware of the level of financial commitment, but also realised that initial investment was essential for the success of their business.

"Feng Shui training was a bit of a financial commitment, but I knew that this was my chance" **Annabel, therapist, London**

Some participants, however, did not take on debt in order to start working for themselves. In part, this can be due to the difficulties that self-employed people have in accessing credit once they are in self-employment. Credit can be important at start-up and during times of adversity, and is discussed further in Chapter 4.

Those in knowledge-based industries typically require much lower start-up funds. This means they may be more likely to make an early profit, and if they get into debt this tends to be for other reasons such as inability to work, for instance, due to illness. However, a few of our participants were already in personal debt when they entered self-employment, and got deeper into debt as a result.

Advice

Those who received advice on starting up had tended to turn to family and friends who either had experience of being self-employed themselves or who worked in industries such as accounting or financial advice. And this advice was needed; some of those we spoke to started from a point of knowing very little - if anything at all - about being self-employed.

"I didn't actually know the process of becoming self-employed... I didn't know if you had to register or anything... my uncle is a financial adviser and he told me that I had to register" **Alex, furniture maker, Hampshire**

"Nobody has ever sat down with me and explained the ins and outs of being self-employed... luckily I have had a few friends who have been able to sit down with me and go through bits and pieces and helped me" **Mark, landscape gardener, Swindon**

Participants valued this informal advice. It was easy to seek out, was explained in a way they found easy to understand, enabled them to ask questions and they trusted the information.

A few participants received advice from Jobcentre Plus or other government funded agencies or programmes. Views were mixed on how helpful these were: one or two found them informative and helpful. However, at least one said they found the information difficult to understand.

"They tried to do things like planning, spreadsheets - I just couldn't do it!"

Megan, artist / jeweller, London

While the level and type of advice received varied, almost all of our participants said they would have welcomed further advice and guidance when starting up.

"What I would have really liked is a mentor. To sit me down and say 'put the figures here'" **Megan, artist / jeweller, London**

3: The ups and downs of daily business

This chapter looks in more detail at the financial traps people fall into and the ups and downs they experience when running their own business - at start-up, during trading, and through unexpected shocks.

When business is doing well

For some of our participants, there were times when their business prospered. Often this was at the beginning of their business lives, which runs contrary to many self-employed people's journeys. Our participants had early successes and profits. They tended to have low start-up costs and work in service industries. Others happened to start working for themselves at a time when the market was able to accommodate them and the business flourished.

"To start off with, it was quite good, we had a lot of work" **Mark, landscape gardener**

When work is profitable, self-employed people need to make decisions about what to do with their earnings. While the skilled tradespeople used any early profits to pay overheads and invest in equipment, most of our participants did not tend to use this time to save money and plan for the future. Some spent early profits on improving their lifestyle and their homes, as they felt optimistic that their business would continue to be profitable, while one admitted that she didn't give much thought to the future.

"I was 23 at the time and just went out spending it! I had no responsibilities at the time apart from running the pub". **Frankie, pub manager, Nottingham**

Just one participant said she actively tried to save money, and she was not saving for the long-term, but to provide a cushion for times when her earnings dipped. Another took the opportunity of doing well to get credit in the form of a bank loan, which he believed would help his business to expand.

"I tend to squirrel some money away for when things like the oven breaks"
Elaine, cake maker, London

Whilst many employed people manage their money in a similar way, the stability of income and access to employee benefits (such as sick pay and redundancy pay), mean that self-employed people in this situation are at more risk of falling into debt.

Problems at start-up

Business planning, including forecasting start-up, overheads and marketing costs, as well as researching the market, are integral parts of the start-up phase of a business. This process often starts several months before trading begins.

However, someone who has never worked for themselves before may not have all of the skills that they need. Our previous report, *Going Solo*¹⁷, called for better advice and guidance for self-employed people starting out. For our participants, several specific problems emerged at various points that could have been mitigated through targeted advice and guidance when they were setting up:

- Several of our participants feared that their **business idea was not viable** and, had they been advised of this at the time, they may have proceeded differently;
- At least one participant had not factored in the **cost of ongoing overheads**;
- Two struggled because the **geographical location** of their businesses meant that they were not in the right catchment area for their ideal customer base;
- Despite low profits, some participants were **routinely undercharging** or giving away goods or services to friends and family. Laura, a hairdresser stated that she frequently undercharged her clients, because she knew that they were not well off. *"I admit that I am probably a bit too soft"*;
- Some struggled with **balancing the price of their product with the amount of time they spent working on it**. This was especially true of the skilled tradespeople we interviewed, who in striving for perfection were working long hours to produce a product that they would not be able to charge a sufficiently high price for.

Although these problems can occur at any point during the life of a business, with the right advice and guidance at the start-up phase they may be avoidable or their impact lessened. ***The expansion of free or low-cost business skills courses for self-employed people would help ensure that self-employed people are starting out with the best possible chance for their business to succeed.***

Problems during trading

One of the most common problems that our participants experienced was a temporary or permanent drop-off in demand for their service or product.

¹⁷ Citizens Advice. [Going solo](#). 2015

CASE STUDY: ELAINE THE CAKE MAKER

Elaine makes bespoke cakes. Her business had high start-up costs 18 months ago and now continues to have high overheads and low profit margins. She takes on as much business as she can but did not expect the amount of unpaid work that she would need to do. "Giving quotes and liaising with customers [takes a lot of time], but about 45% don't take the cake after all the quotes. [Also], stock-checking and cleaning up - it's definitely not being paid for". Despite producing a high-end product, her profit margins also remain low because her local area has a fairly low ceiling price in terms of what people are willing and able to pay. Elaine is trying to expand her business to other, more affluent, areas but has found that most of her new business is via word of mouth, so expansion has been slow. As much as she finds her work fulfilling, she is aware that she is working too many hours and earning too little for the business to continue indefinitely.

When this occurs, self-employed people can either draw on savings (if they have previously set money aside), cut down on their personal expenses, or take on debt. But drawing on savings or cutting back on spending was not an option for most of our participants.

"I've just been paying debt and buying tools for the business"

Alex, furniture maker, Hampshire

While good advice at start-up can help with financial planning during the lean times, it is not always possible to plan for significant drops in business. Joseph, who had been an interpreter since 1999, found himself caught in the financial crisis of 2008 along with many others: *"the work stopped overnight"*. In these cases, early intervention and advice would help people who may be considering taking on debt to get them through workless periods. This is discussed further in Chapter 5.

Many participants struggled with paying off their start-up debt, which continued to be a burden for many years. Organisations such as Business Debt Line are available for self-employed people to seek help at any point during the life of their business, but our findings suggest that many are either unaware of such services or reluctant to approach them unless absolutely necessary.

CASE STUDY: ALEX THE BESPOKE FURNITURE MAKER

When he started his business three years ago, Alex had an overdraft and some credit card debt. Because he wanted to expand his business and was doing well in the first six months, he approached his bank for advice. They advised him to take out a business loan to consolidate his debts and provide cash flow to expand. "I was apprehensive but it was very easy". Since then, he has not been able to take on as much work as he did in the past and the repayments are beginning to be a burden: "I'm paying £250 a month off so it is quite a big chunk of what I earn but I'm getting there". Although the business is not doing as well as it was, Alex will need to make repayments for the next two years.

Furthermore, two participants had got into debt due to clients not paying promptly or failing to pay at all.

"We have had two customers that we have had to go through the courts with. That's happening with one customer in four at the moment"

Mark, landscape gardener, Swindon

Taking action against clients who are not paying promptly is often expensive and time-consuming. Many sole traders also have little experience of debt collection procedures, meaning that they need to seek advice or risk making mistakes. The Government is making it easier for suppliers to enforce the prompt payment code, which we welcome. However, this scheme only applies to commercial suppliers rather than consumers. Self-employed people may find it helpful to treat periods when they are awaiting payment as part of their budgeting cycle and, if payment is not forthcoming, be prepared to take court action. For those who struggle with income fluctuations, business advice may help.

Getting help for the unexpected

Many of our participants experienced financial shocks that were external and unexpected. These could be the result of illness, relationship breakdown or problems with benefit claims. These could either prevent them from working or restrict the amount of work they could do.

CASE STUDY: MARK THE LANDSCAPE GARDENER

Mark originally became a gardener because he was injured at work while self-employed in 2013. "After the accident, I was out of work for six months but then I was in and out of hospital for nearly 18 months". As he had no sick pay available to him, he got into debt while he tried to determine what work he could do. He began landscaping when a friend offered work, but he was still unable to work the same number of hours as in his previous job. "When I was in security, there was always an option to take an extra shift to make ends meet". As the amount of work has continued to decline, Mark has fallen deeper into debt.

When such shocks occurred, it was rare that our participants had any kind of safety net to fall back on. As they were not eligible for statutory sick pay or redundancy pay from an employer, the only option was to claim income-replacement benefits such as Jobseeker's Allowance or Universal Credit. However Stepchange Debt Charity reports very low rates of benefit take-up by the self-employed people that they advise¹⁸. Our previous report, *Going Solo*, suggests that some are unwilling to claim¹⁹. None of our participants spoke of having any insurance that would cover them for illness or lack of work.

While no amount of preparation can completely safeguard against life shocks, there are touchpoints at which debt advisers could potentially advise self-employed people to make contact and get money advice.

Our recent report *The Free Advice Gap*²⁰ highlights the need for money advice during significant life events, not just when an individual finds themselves in debt. Getting advice at these touchpoints can help to prevent future problems as well as building familiarity with such advice.

Advice taken early can help to prevent or reduce the impact of such shocks and help a self-employed person to consider all their options at the first available opportunity. It can also help to maximise their income, by including advice on benefit entitlements while they are unable to work.

We recommend that debt services reach out to self-employed people with assistance from the credit industry to raise awareness of free-to-client help and advice.

¹⁸ As of February 2016

¹⁹ Some of the reasons for this are discussed in Citizens Advice. [Going Solo](#). 2015

²⁰ Citizens Advice. [The Free Advice Gap](#). 2015

4: The impact of debt

This chapter considers the impact of debt on self-employed people. As well as having a negative impact on the individual, it can also have a detrimental effect on their work.

Our research revealed many similarities between self-employed people's experiences of being in debt and the experiences of others in debt. Many have problems paying back the debt or difficulties in dealing with creditors, all of which can contribute to mental and physical health problems²¹. But for self-employed people, personal debt can also mean an end to working for themselves.

Impact on business

We found that people tended to prioritise paying their essential bills, including their overheads, over paying off debt. They felt that, due to the uncertainty of their income, they needed to ensure they were able to pay for essentials the following month, rather than tie money up using it to reduce their debt.

"If you have a regular income, you stand a fighting chance of being able to do something or get some savings in the bank." Mark, landscape gardener, Swindon

None of our participants separated out their business and personal expenses and our previous research²² suggests that this is common among self-employed people. Ultimately, insolvency of the business and insolvency of the trader are one and the same and, without intervention, there are few options for a self-employed person other than winding up their business and leaving the market. This is discussed further below.

Being unable to access credit was reported as a problem by some of our participants. Furthermore, over a quarter (29%) of self-employed people surveyed said that they had been turned down for a credit product which they knew or suspected was because they were self-employed²³. This includes 10% who were turned down for a credit card and 8% who were turned down for a personal loan, either of which could impair the ability of a self-employed person to continue trading through a difficult period. This finding is supported by NPI's analysis of the Wealth and Assets Survey which shows that just 16% of self-employed households had a formal loan arrangement in 2010/12, compared to 24% of employee households²⁴. For some self-employed interview participants, it was only the

²¹ See, for example, Fitch C., Jenkins R., Hurlston M., Hamilton S., Davey R and Walker F. *Debt and mental health: an overview of selected evidence, key challenges, and available tools*. 2009

²² See Citizens Advice. *Going Solo and Who's the Boss*. 2015

²³ YouGov poll for Citizens Advice 9th-15th November 2015. Sample size: 650 self-employed people

²⁴ NPI analysis for Citizens Advice. Wealth and Assets Survey 2010/12

availability of credit to tide them over that had allowed their business to survive at all.

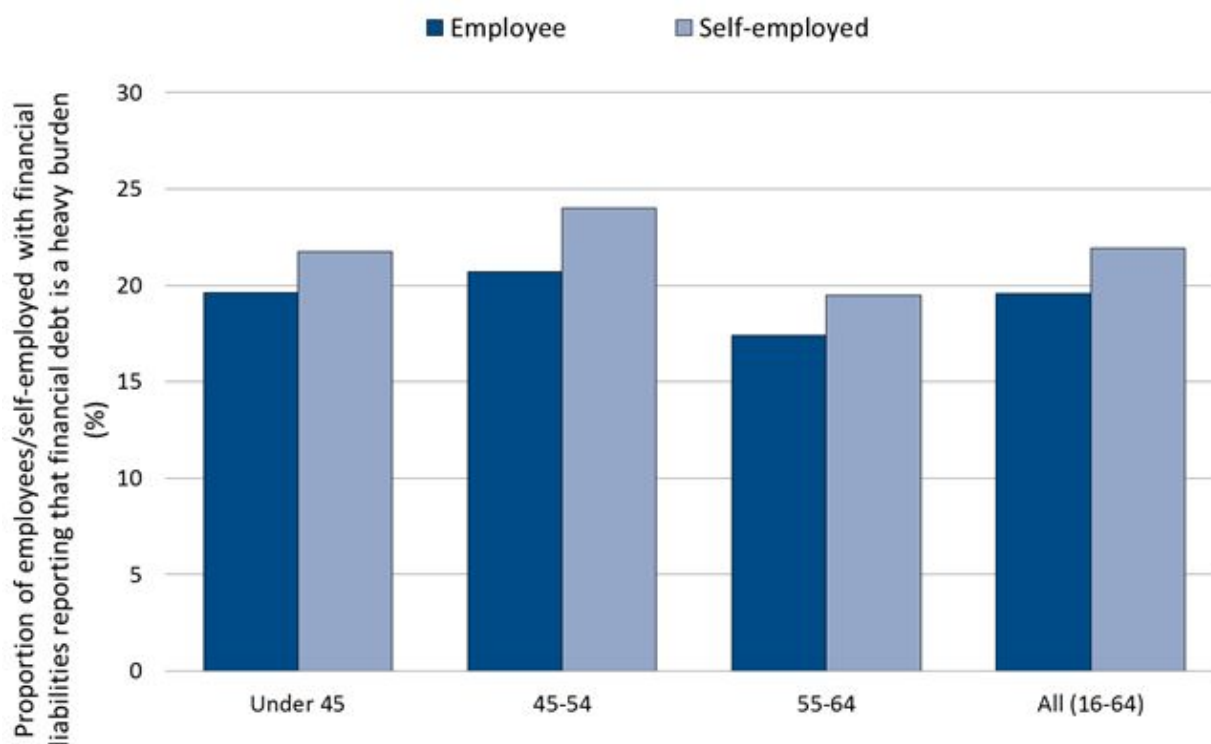
"I can't even get a business account [due to being turned down for credit]. Having a chequebook for business would be very very useful. Not having that facility is a nightmare" Mark, Landscape gardener, Swindon

For this reason ***we suggest that there is scope for development of more responsible credit products tailored for self-employed people.***

Impact on health and relationships

Financial liabilities weigh heavily on some people. As Figure 3 shows, over half of self-employed people (59%) report that their debts are a burden, including 21% who say they are a heavy burden. This seems likely to reflect data presented in Chapter 1; self-employed people tend to have lower and less certain incomes.

Figure 3: Proportion of individuals in financial debt who believe it is a heavy burden (excluding mortgages), 2010/12



Source: NPI analysis for Citizens Advice from Wealth and Assets Survey (2010 / 2012). Data are for individuals with financial liabilities; proportions are reported as a share of all those responding to the question on financial debt burden.

Being in debt can have a detrimental effect on health and relationships. This is the case for anyone in debt. Among those who are self-employed, however, we found that some try to work their way out of debt, which means working longer and longer hours - *"I can't take time off"*. Among some of those we spoke to the burden of debt led to further stress, increasingly poor mental health and physical exhaustion.

"I really love it, I do love it... but one night I was up [working] until 7AM"

Elaine, cake-maker, London

"I just went under; I couldn't cope with it... It was like having your hands cut off and you couldn't get to the controls." **Jill, cleaner/carer, London**

In some cases the effect of debt coupled with very long working hours has caused tension with partners and family members.

"I worry about it a lot... some of it [impact of debt] has fallen to [her partner] so it's had a ripple effect really". **Elaine, cake maker, London**

Some participants spoke of isolation stemming from both self-employment and being in debt. The limited contact that some participants had with friends and colleagues diminished further as a result of having even less time or money to spend with them.

"I couldn't socialise with my friends. My friends used to pay for drinks so that they could still see me" **Alex, furniture maker, Hampshire**

"I started noticing behaviours in myself, anxiety, depression, not wanting to go out, not wanting to face things. I am becoming less and less sociable, as in not even wanting to talk to people on the phone." **Mark, landscape gardener, Swindon**

This isolation may reduce the likelihood that self-employed people will seek out and access debt advice.

Coping with debt

While many felt they were not coping well with their debt, they had developed strategies for getting by. They either tended to cut back on expenditure or borrow further to tide themselves over, in addition to working longer hours. In terms of cutting back, many cut back first on non-essentials such as social activities and then, over time, on essentials, such as food.

Those who had credit available to them tended to use it, and those who had the option also turned to family for informal loans. In particular, three participants had borrowed heavily from their families on the understanding that they would pay them back as and when they could afford to. However, despite these attempts to manage their situation, overwhelmingly, we found that our participants did not seek debt advice unless a moment of crisis compelled them to do so.

CASE STUDY: LAURA THE HAIRDRESSER

Laura became self-employed nine years ago after having problems at her place of employment. She struggled with the initial budgeting for her business, as she realised she had not taken account of many of her overheads when she started and quickly got into credit card debt and, later, was unable to keep up with her mortgage payments. The debt got to a critical point and she became unable to keep on top of it: "I buried my head in the sand about it all". The moment of crisis came when she eventually opened a letter informing her that she had a court hearing the following day for missed mortgage payments. She attended and was granted a Debt Relief Order by the court. If the court had not intervened, Laura could have lost her home.

Despite the fact that none of our participants sought advice for their debt when it first occurred, we found that those who had previously experienced debt were more proactive and willing to seek advice early when they fell into debt again.

"I have been in touch with the Citizens Advice Bureau and I have an appointment next week, with a view to looking where we are with the energy bills. I am going to ask, 'what can I do? What realistic options are there for me?'"

Mark, Landscape gardener, Swindon

As early intervention is vital to the success of debt advice²⁵, it is important that self-employed people can recognise the issue and access these services as soon as they are experiencing debt.

A brighter future?

Despite having experienced difficulties as a result of being self-employed, most of our participants continued to be optimistic about the future. They believed that their situation would improve and that they would be able to continue to work for themselves. As a self-employed person, there is uncertainty and risk in continuing to trade. While things could improve, it was also a possibility that things would remain the same or even worsen. For better or worse, employees in long-term fixed-hour employment know what their income will be every month and are more likely to be able to analyse whether their financial situation is likely to improve. This is more difficult for self-employed people. However there were a number of tactics that our participants used when considering their plans.

²⁵ University of Bristol Personal Finance Research Centre. [Understanding financial difficulty: Exploring the opportunities for early intervention](#). 2011

Diversifying work

As well as feeling optimistic, some participants were actively seeking ways to grow and improve their business. A few had decided to diversify their business, either by changing or increasing the products or services they were selling, or in a couple of cases, trying to break into more wealthy areas.

"Hopefully we can reach out to places where they're happy to spend more... hopefully that'll make a change" Elaine, cake maker, London

Others were planning to top-up their income with a part-time job, in order to enable them to continue in self-employment.

"What I would like to do is to find a part-time job so that I can use my experience... and then the rest of the time I can maybe do craft fairs or maybe some wholesaling" Megan, artist / jeweller, London

Some were committed to remaining self-employed but were thinking of starting a whole new business:

"I have just started doing the paperwork to becoming a personal trainer. Maybe in 2016, I could get qualified and does some of that in the morning and do [his current business] in the afternoon. I am trying to think of other ways to generate income" Dan, will writer, Nottingham

However, while others wanted to remain self-employed, they questioned if their situation was sustainable. Some of these participants had set themselves a review point, within the next year or so, at which point they would make a decision about the viability of their business.

"[Whether I continue with the business will] depend on how April looks - what's left [after tax] and what equipment we need" Elaine, cake maker, London

"I've set a target. The lease here runs out in April 2017. If I'm not comfortable with the money by then, then I'll probably stop and be employed"

Alex, furniture maker, Hampshire

The decision to leave self-employment

For many, the decision to leave self-employment is neither easy nor taken lightly. We found that self-employed people were reluctant to give up self-employment. Most enjoyed their work and had spent a considerable amount of time, effort and care in trying to ensure its success.

Two participants had decided to leave self-employment when we spoke to them and one had just started to wind up her business and was job-seeking. They had taken a number of factors into account when making their decision. This was because they realised that self-employment was ultimately not worth the degree of

financial uncertainty they were experiencing. Some had also realised that ultimately, their business would never be lucrative enough to keep them out of debt. In two cases, participants considered leaving self-employment because they were afraid of falling further into debt and of further life shocks (such as illness) that could increase their debt.

"I am sick to death of not having a stable income and I am appalled that I am in debt again. My work is motivated by money now. There is no safety net and that's what I now need in my life." **Mark, landscape gardener, Swindon**

Some participants, although continuing to work for themselves, were so disheartened that they regretted ever becoming self-employed. These tended to be participants who did not make a positive self-motivated choice at the start, but felt they were forced into self-employment because of a lack of alternative options.

"If I could do it all again, I would go into a nice normal job and do that."

Frankie, pub manager, Nottingham

While some, in particular those who had received debt support, tended to be more optimistic about their chances of continuing in self-employment, a minority felt that this help was simply not sufficient to solve the financial problems that they were encountering and admitted that they would have to find alternative employment.

"It is time to retrain, it's time to do something else that doesn't have a lifespan"

Mark, landscape gardener, Swindon

"As much as I love this place and being self-employed, if it doesn't work then I'll have to be employed, which pains me because I love it. It is my life here"

Alex, furniture maker, Hampshire

5: Seeking help

This chapter explores the debt recovery options available to self-employed people. We focus on formal, free-to-client debt advice and solutions, and discuss the difficulties arising from isolation from debt advice and fluctuating incomes.

Getting help

The profile and needs of self-employed people in debt tend to differ from employees. Data from Stepchange Debt Charity show that self-employed people often say their debts have arisen because of reduced or irregular income. One in five cited reduced income, and one in eight cited irregular income as the main reason why they had fallen into debt. This is 70% and 422% more than all clients respectively.²⁶ This suggests that help and advice needs to be tailored to deal with circumstances which are relatively uncommon in other groups of people experiencing debt.

In terms of accessing help and support, most of our participants turned to family and friends in the first instance, both for financial support and for advice on how to cope with their debts.

“I sometimes borrow money from my mum to help get by. I know that I can pay the money back as and when I can - which is important for me on a fluctuating income.” **Annabel, therapist, London**

As discussed in the previous chapter, people did not tend to seek formal advice until they reached crisis point. This supports our previous research, which showed that people are more likely to seek money advice at particular moments in their lives²⁷, either when there is a significant change or, more commonly, when a debt incident occurs, such as a letter from a bailiff or a court hearing notice.

Distance from formal debt advice

We found that while it is beneficial to seek help early on, many of our participants tended to leave this as long as possible, either because they expected the work to pick up, didn't know where or who to approach for advice, or just hoped things would improve.

“I didn't cope, I ignored it until things were taken out of my hands by courts.”

Laura, hairdresser, south Wales

²⁶ Data accessed in February 2016

²⁷ Citizens Advice. [The Free Advice Gap](#). 2015

However, until their situation reached crisis point, some participants felt as though there was nowhere they could turn and no one that they could approach about their debt.

"I can't go to family and friends and say, there isn't going to be much work for the next two weeks, can you help? There is no one but me"

Mark, Landscape gardener, Swindon

Many of our participants also felt a strong sense of ownership and pride in their work. This meant that they were willing to get into increasing amounts of personal debt in order to keep going. However, while the business fails to grow and the debts mount, our participants began to feel a sense of intense personal responsibility and failure, which led to a reticence to seek advice.

"I buried my head in the sand about it all" **Laura, hairdresser, south Wales**

The problem of fluctuating income

Most types of debt solutions rely on an arrangement for payment to be made between the debtor and the creditors. Other options such as bankruptcy and debt relief orders are likely to severely restrict a sole-trader from running a business or prevent them from doing so altogether. For this reason it is commonly the option of last resort for debt problems. Other arrangements can vary in structure, from highly informal individual negotiation with creditors to legally binding agreements such as an Individual Voluntary Arrangement (IVA). Any of these agreements relies on the debtor making an offer to the creditor that the creditor believes is realistic and gives them the best return possible on the debt.

Self-employed people present the problem of fluctuating income to creditors. Very few self-employed people are able to predict with any accuracy what their income will be from month to month, or even from week to week. This means that a reasonable repayment which is appropriate in one month may be impossible to make the following month, if their income has dropped. This also means that creditors see self-employed people as higher risk debtors who may default on their agreements. This problem is often crystallised when a self-employed person attempts to get either a Debt Management Plan or an IVA.

However, the following case study shows how one debt management provider has set up a bespoke team which specialises in helping people in non-standard financial situations - including self-employed people.

CASE STUDY: THE PAYPLAN BESPOKE TEAM

Payplan's bespoke team specialises in advising people in non-standard financial situations.

One of the areas they specialise in is in drawing up agreements with creditors for people with fluctuating incomes. For instance, for when trying to agree an Individual Voluntary Arrangement (IVA), there must be approval between most of the creditors in order for the arrangement to be successful. If the creditors believe that the debtor will be unable to keep to the IVA, they may not agree to it. The bespoke team works with self-employed people to draw up detailed income forecasts and cash flow sheets in order to ensure that an IVA has the best chance of success. In addition, it is possible to vary terms of an IVA so that payments increase or decrease seasonally, where a self-employed person's earnings are seasonal. The bespoke team regularly add such variations to an IVA, which is a relatively uncommon practice among insolvency practitioners.

Recommendations

Our recommendations focus on support to ensure that self-employed people can both avoid unwanted debt and get prompt, specialised help when things go wrong.

Better support in business start-up and management

Problem: some new traders are struggling with some aspects of business management.

Recommendation: Expansion of free or low-cost business skills courses for self-employed people.

Many of the difficulties that self-employed people experience which can lead to debt could be mitigated with targeted business advice and training before or during trading.

Although there are pockets of good practice across the country, with investment from local authorities, LEPs and local chambers of commerce, there are many areas in which such support does not exist for self-employed people or is provided exclusively by Jobcentre Plus. Few self-employed people start out with all the business skills they need, and those who do are likely to have learnt the theory rather than gained real world experience.

The recent review of self-employment conducted by Julie Deane²⁸ also emphasises the need for self-employed people to have access to comprehensive skills development, and recommends business education be incorporated into school curriculums. While we would welcome such a move, there is still a need for business capability training in the practicalities of self-employment that refreshes and builds upon this, and which should be made available to anyone who is considering becoming self-employed.

We believe these would be most valuable if they covered areas such as:

- How to create business plan;
- How to manage basic accounts;
- How to complete tax returns;
- How to create cash flow forecasts and budgets;
- Strategies for managing during financial downturns;
- How to price goods and services appropriately;
- How to negotiate with clients and;
- How to make the most effective use of time and resources.

²⁸ Julie Deane. [Self-employment review: an independent report](#). 2016

Problem: Crisis points arise during self-employment causing a self-employed individual to fall into debt.

Recommendation: One stop shop for self-employed people to get advice about business-related issues, including budget review and forecasting.

When self-employed people encounter problems with their business, they can find it difficult to access business advice. This advice should be available for people when they are struggling with these matters in moments of crisis, when the risk is highest for both the trader and their business is falling into unsustainable debt.

Problem: Credit products for micro-businesses can be difficult to obtain

Recommendation: Development of more responsible credit products tailored for self-employed people that do not exclude them on the basis that they are self-employed.

Borrowing is often an integral part of business planning and growth for micro-businesses, provided it is used as part of a responsible financial strategy. For self-employed people it is important that access to credit is available when needed and appropriate for their needs.

We suggest that responsible lenders might consider the scope to develop credit products that allow flexible repayments for self-employed people with viable business models, which would enable them to grow and reinvest in their business. This might involve developing more nuanced credit referencing systems which reflect the entirety of an individual's circumstances. This is especially true of companies that provide services rather than cash loans, such as those providing equipment bought on credit agreements.

Improved communication of debt advice

Problem: Some self-employed people are reluctant to seek debt advice until their debts reach crisis point.

Recommendation: Debt advice agencies could work more extensively with creditors to reach out to self-employed people and raise awareness of free-to-client help and advice

Some self-employed people are reluctant to seek formal advice for their debt problems until they reach a crisis point. There are many ways in which the credit industry can work with free-to-client advice providers to encourage self-employed people in debt to seek advice early.

Currently, many large creditors signpost this advice at the bottom of bills they send out. We recommend that creditors include contact details for specialist debt services for self-employed people along with the details for generalist advice. When a self-employed person applies for a business credit product, we suggest that lenders provide information and signposting to free-to-client advice services even if, initially, the customer does not require them. It should also be a matter of course that if a self-employed customer contacts their lender because they are experiencing financial difficulties, the lender refers them to free-to-client debt advice services.

In addition, as we set out in *The Preventative Advice Gap*²⁹, we recommend that agencies that frequently have contact with self-employed people at key life events should also have the knowledge and ability to easily refer individuals for preventative advice. These may include accountants, GPs, childcare providers or mental health services.

²⁹ Citizens Advice. [The Preventative Advice Gap](#). 2016

Appendix

Breakdown of participant demographics

Category	Description	Number interviewed
Gender	Women	6
	Men	4
Household Type	Single	5
	Single with dependent children	3
	Couple no children	2
Housing Tenure	Social Housing	4
	Private rented	3
	Homeowner	2
	Non-householder	1
Occupation type	Managerial	1
	Associate Professional	3
	Skilled Trade	3
	Care and Leisure	1
	Elementary	2
Length of Self-employment	0-2 years	3
	2-5 years	3
	5-10 years	2
	10+ years	2

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