

Supporting small businesses with energy debt

Money Advice Trust recommendations based on independent research from the University of Bristol's Personal Finance Research Centre



January 2018

**BUSINESS
DEBTLINE**

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MONEY
ADVICE TRUST

The Money Advice Trust is a charity founded in 1991 to help people across the UK tackle their debts and manage their money with confidence. The Trust's main activities are giving advice, supporting advisers and improving the UK's money and debt environment.

The Trust runs Business Debtline, which provides vital support to self-employed people and small businesses. In 2017, our advisers gave advice to more than 29,000 people over the phone and over 7,000 people by web chat. In addition, there were 167,329 visits to the Business Debtline website.

Supporting small businesses with energy debts: Money Advice Trust recommendations

Introduction

Although small and micro-businesses make up the vast majority of UK businesses by number, there is surprisingly little published research about the financial issues they face, particularly in relation to energy debt. The Money Advice Trust has commissioned Bristol University's Personal Finance Research Centre (PFRC) to carry out qualitative research, exploring the impact of energy debt on the lives of Business Debtline clients and their experiences of dealing with energy debt and suppliers.

While primarily focused on energy debt, the report also provides valuable insights into people's experiences of setting up and running a small business; how they deal with business finances; and their engagement with the business energy market.

Our recommendations, based on the independent research, are set out here. In formulating these recommendations, we held a roundtable with a range of relevant stakeholders, for whose input we are grateful. These included: Energy UK, Citizens Advice, Extra Help Unit, Ombudsman Services: Energy, Ofgem, FSB, Business Energy Solutions, SSE, npower, Opus Energy and Scottish Power.

We look forward to working with these partners and others in progressing the recommendations.

Our recommendations

To tackle the issues highlighted in this research, we are making the following recommendations.

1. Improve the information available to small businesses

Small business owners often have limited understanding of the energy market and their general consumer rights and responsibilities. To help improve this:

- ✓ Energy suppliers should take steps to make small business customers aware of the Citizens Advice Consumer Service, which is a key source of consumer information and advice for both domestic and non-domestic customers.
- ✓ Energy suppliers should review the information they provide to new customers, particularly on billing, contracts and energy saving measures, and how effectively it is communicated.

2. Take individual circumstances into account

Small businesses are varied in nature and can be seriously affected by the personal circumstances of those that run them. This is particularly true of very small businesses.

- ✓ Energy suppliers should take account of customers' individual circumstances, including both financial and non-financial factors.
- ✓ Energy suppliers should consider approaches such as communicating more frequently with some customers, taking a more proactive approach to customers in arrears, having regard to factors such as physical and mental health problems and making use of site visits to resolve problems.
- ✓ Ofgem should review existing protections for microbusiness customers and consider additional guidance or protections for those that are especially susceptible to detriment.

3. Improving signposting

A number of energy suppliers already signpost customers to Business Debtline. This is welcome, but often occurs at a late stage in the collections or enforcement process. To improve this:

- ✓ Energy suppliers should raise awareness of Business Debtline among staff who deal with customers at earlier stages in the collections process or who work outside of collections (for example customer service or complaints roles).
- ✓ Energy suppliers should develop signposting to online and web chat services, alongside phone advice.

4. Broader small business support

Some small business owners begin trading with little planning and without the necessary background skills to be able to operate effectively as a business. This approach stores problems up which inevitably rise to the surface later down the line.

- ✓ Government should work with stakeholders to coordinate and further promote existing small business support services, such as British Business Bank, local growth hubs, the Business Support Helpline, Business Gateway, Business Wales Helpline and the new Small Business Commissioner.
- ✓ Business support services should develop and promote programmes which reflect the needs of very small businesses, including support with basic business skills.
- ✓ Ofgem and other relevant regulators should work alongside government to ensure the support needs of small businesses in key markets (such as energy) are adequately addressed.
- ✓ The remit of the new Single Financial Guidance Body (SFGB) has been confirmed to include self-employed people, but only in relation to their personal finances. The government should expand this remit to cover business debts, and use the opportunity the SFGB presents to improve the information and support available to small businesses.

For more information about Business Debtline, or to discuss these policy recommendations in more detail, contact:

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Supporting small businesses with energy debt

A report for the Money Advice Trust

Personal Finance Research Centre

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Personal Finance
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Personal Finance Research Centre
University of Bristol

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Executive summary

Although small and micro-businesses make up the vast majority of UK businesses (by number), there is surprisingly little published research about them, and hardly any that looks in detail at the financial issues they face. The Money Advice Trust commissioned this qualitative research to explore the impact of energy debt on the lives of its Business Debtline clients and the experience of dealing with energy debt from their perspective.

The study comprised 22 in-depth telephone interviews with self-employed people running their own businesses who had energy debt and had contacted Business Debtline in the last 24 months. We also conducted three telephone interviews with Business Debtline advisers to get their perspective on small business energy debt and examples of good practice among business energy suppliers. While primarily focused on energy debt from the perspective of small businesses, the report also provides valuable insights into people's experiences of setting up and running a small business; how they deal with business finances; and their engagement with the business energy market.

Setting up and running a small business

Our interviewees came into business in a variety of ways, but generally shared the experience of learning how to run their business 'on the job'. Apart from employing accountants, they had little in the way of formal training or ongoing professional support. While some may not have wanted or needed training or support, there were instances where inexperience had led to errors or misjudgements. Where personal finances and consumer credit became tangled with business finances, dealing with debt inevitably became more complex and involved interacting with multiple advice providers.

What sorts of small and micro-businesses did we speak to?

Retailers such as newsagents, convenience stores, comic shops
Food outlets, cafes and pubs
Services such as hairdressing, pet care, and holistic therapy
Commercial and residential landlords

Engagement with the energy market

Unless small businesses take time to shop around, they may pay more for their business energy as a result of 'deemed' contracts and automatic contract renewals - potentially adding to energy debt problems. On the whole our interviewees showed limited engagement with the business energy market, due to lack of time, lack of awareness, confusion about tariffs or because their debt prevented them from switching to another supplier. For some small businesses, using energy consultants and brokers was straightforward and resulted in cheaper energy; for others use of consultants and brokers was marred by 'hard sell' tactics which could put them off using these services.

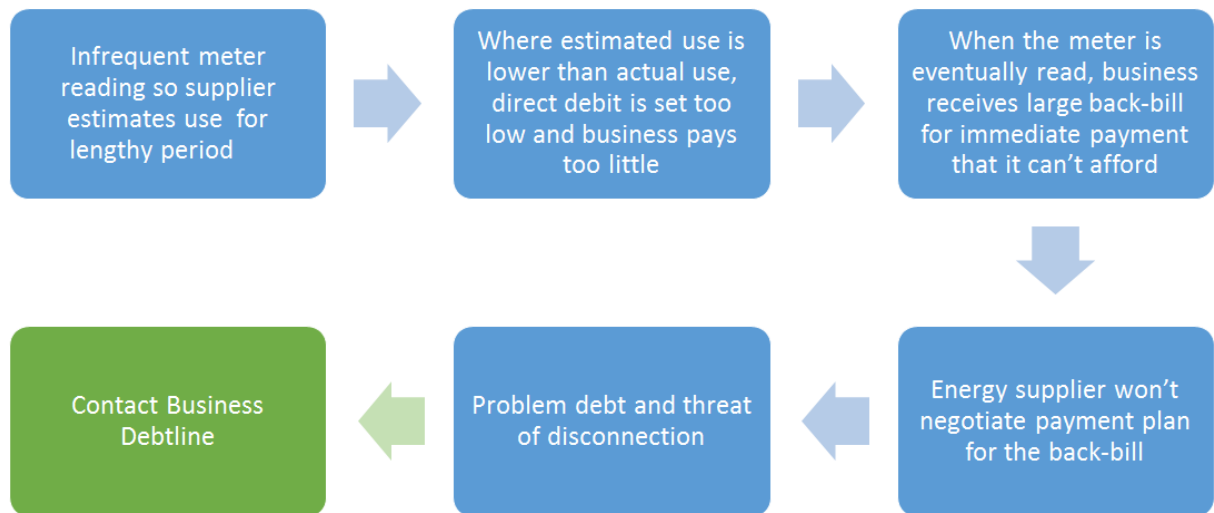
Efforts to improve competition in the energy market rely on businesses knowing (or being made aware) that they fall into the category of 'micro-business'. Despite their many dealings with energy suppliers, it was an unfamiliar term to our interviewees.

Routes into energy debt

Among the small businesses we interviewed, energy debt was often one element in a bigger picture of financial difficulty, where the catalysts were a combination of poor trading conditions, changing consumer habits, tough competition and sometimes personal factors as well, such as ill-health, bereavement and breakdown of personal relationships. Trading through debt could be a real challenge in these circumstances.

Metering and billing problems were a common cause of energy debt for our small businesses – a contributory factor for some, but the only issue for others. The single most common metering and billing problem occurred when suppliers' read meters infrequently, relying instead on estimated bills that under-estimated actual usage. The small business's direct debit was set too low and the business paid less for its energy than it used. By the time suppliers read the meter and calculated the difference in what was owed and what had been paid, small businesses could face a 'catch-up' bill or back-bill that they could not pay in one go but suppliers were not prepared to negotiate. This vicious cycle is summarised in Figure 1. None of our small businesses seemed to have fulfilled the responsibilities necessary to benefit from the voluntary industry standards on back-billing, which limit the amount that can be back-billed by participating suppliers.

Figure 1: Energy debt as a result of infrequent meter reading and estimated billing over long periods



The advice journey

Our small businesses came to Business Debtline late in the day, by which time it was challenging to sort out their energy debt. It was often a lonely, fraught journey to this point, with our interviewees trying but failing to negotiate with suppliers, often hampered by poor communication. Getting to professional advice earlier may have aided a quicker resolution.

“... it was getting serious, nobody was listening to me, nobody was returning calls and it was just ‘this was what you owe and we're not listening and if you don't do it then we'll cut you off’.”

Previously unaware of Business Debtline, the fact that our interviewees got professional help usually hinged on referrals from their energy supplier (once they'd reached an impasse) or a non-business advice provider. Agreed referral pathways between suppliers and Business Debtline and 'breathing space' for small businesses to get professional help were cited as examples of good practice by Business Debtline advisers. Advisers were keen for energy suppliers to refer small businesses to them earlier, before problem debt became a crisis and there were likely to be more options for sorting things out.

The outcomes for most of our small businesses after they sought help from Business Debtline looked fairly positive, at least in terms of repaying their energy debt. For some, the position was far less healthy – they were either waiting to sort out energy debts for

businesses that had already ceased trading, or had closed their business because they could not reach an agreement with their energy supplier, even with Business Debtline's help.

Learning and implications

While we cannot generalise from experiences of our small businesses to all Business Debtline clients with energy debt, the interview data provides valuable insights on key issues that were corroborated by Business Debtline advisers. We identify learning and implications in four areas: energy education; better communication; better referral pathways; and protections for micro-businesses.

Energy education

Issues with metering and billing were often at the root of our small businesses' energy debt problems. These problems should be preventable – by better monitoring of energy usage and direct debits that reflect actual rather than estimated use, so that large arrears do not build up.

Our small businesses seemed unaware that they should monitor their energy use and submit regular meter readings to their supplier – and Business Debtline advisers confirmed this was not unusual among their clients. To be able to perform this task, small businesses need to know where their meters are; the right meter to read if there is more than one; and how to take the reading. This can be more difficult than it sounds – there were instances where energy suppliers read the wrong meter, for example.

Energy education for small and micro-businesses. A user-friendly 'welcome pack' is one way for the energy industry to give small businesses generic information about their responsibilities and the responsibilities of their energy supplier in relation to metering and billing.

A user-friendly 'welcome pack' produced by the energy industry could be one way to give small businesses generic information about their responsibilities and the responsibilities of their energy supplier in relation to metering and billing, for example when they move into new business premises. The information should reflect the industry's voluntary standards for back-billing, so that small businesses have a

chance to comply with the responsibilities they need to fulfil in order to benefit from the standards.

Energy suppliers also have a responsibility to read meters regularly. Alerting business customers earlier to the risk of under-paying would have helped our small businesses, as would agreeing an affordable increase in direct debit payments as soon as under-paying becomes apparent.

The roll-out of smart meters for business customers may help alleviate metering and billing problems, provided they work properly; and offers an opportunity for the energy industry to promote key messages about business energy to customers.

Better communication

Our small businesses had mixed experiences of communicating with their energy suppliers. Better communication has the potential to make dealing with energy debt quicker and more efficient, without recourse to professional advice. Based on our interviewees' experiences, from the supplier side this would include timely responses, consistent messages from energy suppliers, better paper trails of interactions with small businesses – plus a greater understanding among frontline energy staff about small and micro-businesses (including the impact of personal circumstances on their businesses). Business Debtline advisers stressed the importance of small businesses keeping in touch with their energy suppliers as well.

What does good communication look like?

- Timely responses from energy suppliers
- Consistent messages
- Better paper trails
- Greater understanding about small and micro-businesses among frontline energy staff.

Better referral pathways

Without a referral from their energy supplier (or a non-business advice provider) a lot of our small businesses may never have got professional advice about their energy debt. Business Debtline advisers also valued the referral arrangements they had with some of the large energy suppliers, and were keen to see similar arrangements with others.

In the advisers' experience, referral pathways work best when energy suppliers give customers some information about Business Debtline and the service it offers, so that small businesses aren't coming to the service 'cold' and they know roughly what to expect when they speak to an adviser. Business Debtline advisers also championed the idea of energy suppliers including Business Debtline's contact details and a brief description of its service in a prominent place on final demand letters.

Referrals made earlier in the debt cycle would also yield better outcomes for small businesses and energy suppliers. Better, more frequent monitoring of energy usage and billing could facilitate this.

What makes for a good referral pathway?

- Refer early in the debt cycle
- Provide customers with some information about BDL and its service so they are not going in 'cold'
- Give BDL's contact details and outline its service in final demand letters.

Protections for micro-businesses

Almost all the small businesses in our study would fall into the official definition of 'micro-business' and could potentially benefit from the extra protections and provisions that have been put in place for micro-businesses by the energy regulator and the energy industry.

Our small businesses were generally not familiar with the term 'micro-business' and none of them reported any discussion with their energy supplier about whether they qualified as a micro-business.

Unless small businesses are aware that they are a micro-business, they cannot benefit from the protections available to them or help drive competition as hoped. The onus is on the regulator and the industry to make sure that businesses know about these protections and their likely eligibility, working with messengers such as accountants and business support services

Protections for micro-businesses

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1 Introduction

At the start of 2016, there were 5.5 million private sector businesses in the UK – two million more than in 2000. Small businesses (defined by government as businesses with 0-49 employees) accounted for 99.3% of all businesses.¹ Micro-businesses (businesses with 0-9 employees) made up 96% of all businesses and accounted for 32% of total business employment and 19% of turnover.²

There is surprisingly little published research on small and micro-businesses, and hardly any that covers in detail the financial issues that these businesses face, including problem debt. In relation to energy debt, the proportion of callers to Business Debtline³ reporting problems with their energy bills has almost quadrupled since 2010, although some of the increase was due to increased referrals by energy companies. Increases in energy costs, and in other business expenses, have left many self-employed and small business callers to Business Debtline unable to keep up with payments.⁴

1.1 About Business Debtline

Business Debtline, run by the Money Advice Trust, provides free advice and resources by phone and online to help self-employed people and small businesses deal with their business finances and business debts. It is the only helpline of its kind in the UK. In 2016, Business Debtline helped 20,860 people on the phone and a further 3,731 people through its webchat service. In addition, there were 132,462 visits to the Business Debtline website.

¹ Department for Business, Energy & Industrial Strategy, *Statistical Release, Business Population Estimates for the UK and Regions 2016* (October 2016). Available from:

https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/559219/bpe_2016_statistical_release.pdf

² Chris Rhodes, *Business Statistics. House of Commons Library Briefing Note 06152* (23 November 2016). Available from:

<http://researchbriefings.files.parliament.uk/documents/SN06152/SN06152.pdf>

³ Business Debtline callers include small and micro businesses and self-employed people.

⁴ MAT (2015a). *The Cost of Doing Business. Supporting the Self-employed and Small Businesses*. Available at:

http://www.moneyadvicetrust.org/SiteCollectionDocuments/Research%20and%20reports/MAT_Business_Debtline_COST_OF_BUS.pdf

1.2 About the research

This qualitative research builds on the Money Advice Trust's 2015 report *The Cost of Doing Business*⁵ to explore the impact of energy debt on the lives of its Business Debtline clients and the experience of dealing with energy debt from their perspective. It set out to understand:

- The reasons why small businesses get into energy debt
- The unique challenges they face as small businesses, and
- The ways in which energy firms, MAT and Business Debtline can best support small businesses to be able to address their debts and, if viable, continue to trade successfully.

Qualitative research is ideally suited to investigate these issues because it elicits rich information about participants' views and experiences. In our analysis of this qualitative data, our aim is to make sense of these complex narratives and learn from them.

The study comprised 22 in-depth telephone interviews with self-employed people running their own businesses who had energy debt and had contacted Business Debtline in the last 24 months. We also conducted three telephone interviews with Business Debtline advisers to get their perspective on small business energy debt and examples of good practice among business energy suppliers. Further details about the research methods are provided in the Appendix.

While primarily focused on energy debt from the perspective of small businesses, this report also provides useful insights into people's experiences of setting up and running a small business; how they deal with business finances; and their engagement with the business energy market.

⁵ Money Advice Trust, *The cost of Doing Business. Supporting the Self-employed and Small Businesses* (2015). Available from: http://www.moneyadvicetrust.org/SiteCollectionDocuments/Research%20and%20reports/MAT_BDL_COST_OF_BUS.pdf

2 Who did we speak to?

For this study, we spoke to 22 small businesses that were based in England, Wales or Scotland. They all had energy debt and had contacted Business Debtline in the last 24 months. These factors shape their views and experiences of dealing with their energy supplier. The design of the study meant we did not speak to small businesses with energy debt that were able to self-negotiate with their energy supplier without professional support from Business Debtline. In addition, we interviewed three Business Debtline advisers who provided insights into small business energy debt and examples of good practice among business energy suppliers.

As we see in the report, the small businesses in the study spanned a wide range of business activities:

- Retailers such as newsagents, convenience stores and specialist stores, for example selling comics and collectables or furniture
- Food outlets, cafes and pubs
- Services, including hairdressers, counselling and holistic therapies, and pet care
- Commercial and residential landlords.

Aside from the landlords (who owned property that they rented to private tenants or businesses), all our participants ran their businesses from business premises, rather than from their own home. It was more common for our participants to lease their business premises than own them. Some participants lived in accommodation adjacent to their business premises. We discuss business energy supply in Chapter Four.

2.1 Business status and size

Most of our small businesses were either limited companies or sole traders. A small number were partnerships. Box 2.1 sets out what different business statuses mean for dealing with problem debt.

Box 2.1 Business status and dealing with debt

Sole traders

Sole traders are personally liable for their business debts. This means they must pay these debts out of their own income. If they do not pay, the creditors they owe money to could take further action against them personally. If this happens, both the sole trader's business and personal assets could be at risk.⁶

Limited companies

Under the law, a limited company is a separate entity from its directors and shareholders. In a small company, the directors are often the shareholders. A company may have one sole director and, in some cases, it will also have a secretary. In most situations, the director and shareholders are not liable for the limited company's debts. However, there are some circumstances where they may be liable such as personal guarantees and Pay As You Earn income tax.⁷

Partnerships

Creditors will initially ask the firm to pay its own debts. If the firm cannot pay, the creditors are likely to ask the individual partners to pay. Partners are 'jointly and severally liable' for the firm's debts. This means that the firm's creditors can act against any partner; and they can act against more than one partner at the same time. This applies even if there is a partnership agreement that says otherwise.⁸

In terms of their size, the small businesses we interviewed were roughly evenly divided between those that had employees, and those that did not. Most with employees had one or two people working for them. Only one of the businesses we spoke to had more than 10 full-time equivalent employees (and so would be counted as a small business rather than a micro-business).⁹

In the energy market, Ofgem defines micro-businesses in terms of size and energy consumption (see Box 2.2). From our interview data,

⁶ Business Debtline, *Fact sheet no. Business Debtline 17 EW Sole traders April 2017* and *Fact sheet no. Business Debtline09 SCOT Sole traders April 2017*

⁷ Business Debtline, *Fact sheet no. Business Debtline 14 EW Limited companies April 2017* and *Fact sheet no. Business Debtline 07 SCOT Limited companies April 2017*. In Business Debtline's experience, banks can be reluctant to lend to limited companies and require personal guarantees for loans, leading to directors borrowing in a personal capacity to fund their business.

⁸ Business Debtline, *Fact sheet BDL15 EW Partnerships October 2016* and *Fact sheet no. BDL08 SCOT Business partnerships March 2017*

⁹ A small business is defined as one with 0-49 employees.

almost all of the small businesses in this study would qualify as micro-businesses under Ofgem’s definition, based on their number of employees.¹⁰ Our participants were generally not familiar with the term ‘micro-business’ and none of them reported any discussion with their energy supplier about whether they qualified as a micro-business. We discuss small businesses’ engagement with the energy market in Chapter Four.

Box 2.2 Ofgem definition of a micro-business¹¹

As set out in article 2(1) of the Gas and Electricity Regulated Providers (Redress Scheme) Order 2008 (S.I. 2008/2268), a micro-business is defined as a company which:

- Consumes less than 200,000 kWh of gas a year, or
 - Consumes less than 55,000 kWh of electricity a year, or
 - Has fewer than ten employees (or their full-time equivalent)
- and an annual turnover or annual balance sheet total not exceeding €2 million.

A business must only meet one of these criteria to qualify as a micro-business energy customer.

2.2 Trading status at the time of interview

Most of the small businesses in the study had managed to trade through their financial difficulties, and were still trading when we interviewed them. A small number (five in total) had ceased trading because of their financial difficulties; several of these participants were now in paid employment.

The next chapter looks at our interviewees experiences of setting up and running a small business.

¹⁰ Of the small businesses we interviewed, only one business had more than 10 full-time equivalent (FTE) staff. Of the remainder, 12 had no employees, eight had fewer than 10 full-time employees and we had no information for one business.

¹¹ Ofgem, *Helping small businesses get the most out of the energy market* (no date). Available at: <https://www.ofgem.gov.uk/ofgem-publications/64043/helpingmicrobusinextprobeqa.pdf>

3 Setting up and running a small business

The small businesses we interviewed had come into business via different routes and for different motivations. Some had a clear business idea they chose to follow; others had fallen into business when an opportunity arose or due to a lack of a better alternative; a few had taken over family businesses. In contrast, both landlords we interviewed saw their businesses as a way to augment their pension funds.

Regardless of their route into business, our interviewees had mainly learned and honed their business skills 'on the job'. Few had accessed any professional support or training about setting up and running a small business; although many of them had accountants or used accountancy services. We look at some of the motivations and routes into business below.

3.1 Taking on a family business

There were some instances of interviewees who moved into business when they took over a family-run enterprise. Rather than being a wholly positive choice, this could be something that interviewees felt obliged to do, for example if a family member left the business and it would close otherwise. They included interviewees who had worked in the business before they took over the running of it; and those who had not.

3.2 Changing profession

Another reason our interviewees started their own business was to change profession, either as a response to redundancy, or to move away from insecure work. These interviewees had generally taken over existing businesses such as shops and pubs, rather than start a new business from scratch.

Apart from a few who had previously worked as an employee in a similar business, these interviewees tended not to have much prior experience of the business they moved into. Given the big changes that some interviewees made (e.g. from working as a carpenter to running a pub), the desire for a change of lifestyle may well have played a part in their choices.

Box 3.1 Changing profession

Bob and Jean are in their sixties and have run a convenience store for the past 15 years. This came about after Bob was made redundant and took a job in a friend's store, which spurred him on to buy a similar business when one came up for sale. As Jean described: *"He went to work in his friend's corner shop and it was just one of those, you know: I really like this, I want one"*. For the first seven years, their business prospered and they took on two more shops. However, the appearance of two major supermarkets in the area was the start of a downturn in custom, and they were now struggling to keep one shop going, having closed the other two.

For those taking on leasehold pubs, the brewery provided a short training course. None of the other interviewees had any business training before starting their businesses, other than experience they already had in that industry or (in one case) working as self-employed in an unrelated industry. Even so, these businesses had been running for at least five years, suggesting that a lack of business training had not undermined their sustainability.

3.3 Taking a new opportunity

Like those changing profession, some of our other interviewees also took over an existing small business. But rather than a conscious change of direction, they took an opportunity that was presented to them – for example to run a pub or a convenience shop.

They also tended not to have much experience or knowledge when they started their business. While for most it did not appear to be a big issue, it could compound financial problems when they arose. For example, one business owner had mistakenly not paid PAYE for his employees. It was only when he contacted Business Debtline about his energy debt that the matter came to light:

"I've not really ran a shop or business before, I've never been self-employed, so I was pretty new to it and I think I just went in blindfolded really."

3.4 Building on experience or interests

Another route into self-employment was to pursue an existing interest, fill a gap in the market or to build on experience in the same line of business. For example, one of our interviewees was a hairdresser who set up her own salon; another turned their hobby into a business, going from selling online while still working as an

employee, to a market stall, and then to a shop. Other businesses set up for these reasons included an art gallery-cum-shop which also had a cafe, an Italian cafe and an ethnic food store.

Some of these interviewees had previous experience of running businesses, although in common with virtually all our participants, no formal business training or support.

Box 3.2 Building on experience or interests

Amy is in her twenties, and left school to work in her family's business. Six years ago, she started her own business. In that time, it has grown from a market stall to a multi-faceted business run from the same premises, of which she is the overall manager. The rapid growth of the business has not been without issues: *"one of the problems I've run into with it, is that it grew so fast, it's kind of hard to keep up with the growth and with everything that was going"*. She contacted Business Debtline when billing issues, and her struggle to keep on top of them, had resulted in an energy debt of several thousand pounds

3.5 Business finances

In small businesses, business and personal finances are sometimes blurred, which can be challenging to sort out when there is problem debt.

The small businesses in our study generally had business bank accounts, separate to their personal banking. There were instances where business and personal finances overlapped, however. Interviewees' who lived on their business premises, for example, described how their general living expenses (including their energy costs) were part and parcel of their business. These small businesses had business energy contracts to supply both their business and living accommodation, which means suppliers do not have to follow the rules that apply to residential supplies when it comes to disconnection. Feedback from BDL advisers indicated that, in their experience, suppliers are generally reluctant to disconnect in these circumstances and only do so as a last resort. Businesses can also ask suppliers to treat them as a vulnerable customer.¹²

Credit was the other main area of overlap between business and personal finance. Some of the small businesses in our study had

¹² Business Debtline, *Factsheet BDL50 EWS Commercial energy debt January 2016*.

business credit lines, such as a business credit cards or overdraft. But it was not uncommon for interviewees to use personal credit cards or overdrafts to manage their cashflow, for example to buy stock or pay business bills, as Andrea describes:

“I try to keep them completely separate, but I have kind of juggled stuff about if I've had to buy stuff in the shop and I have used my personal funds”

Interviewees with both personal and business debts were sometimes dealing with multiple organisations to sort out their financial difficulties. One interviewee had taken out a business loan secured on his home, which proved difficult to sort out after the business went into administration.

In terms of business book-keeping and accounting, it was common for the small businesses in our study to deal with the day-to-day business finances themselves (such as dealing with invoices and recording expenditure) and use professional accountancy services to deal with annual accounts, tax and VAT returns.

3.6 What can we learn from these different experiences?

While our interviewees had come into business in a variety of ways, they generally shared the experience of learning on the job. Apart from employing accountants, they had little in the way of formal training or ongoing professional support. While some may not have wanted or needed training or support, there were instances where inexperience had led to errors or misjudgements.

Our small businesses all had business bank accounts and in some cases business credit lines. Where personal finances and consumer credit became tangled with business finances, dealing with debt inevitably became more complex and involved interacting with multiple advice providers.

In the next chapter, we look at our interviewees' engagement with the business energy market over the course of setting up and running their business. Overall, their engagement was limited.

4 Small business engagement with the energy market

Gas and electricity suppliers usually buy their energy in advance and then sell it to business users under a contract. Businesses are normally tied into a contract that says how long the energy will be supplied for and how much it will cost. These business contracts are generally longer and have harsher exit penalties than fixed term contracts for domestic supply.

Most of small businesses in this study had their business energy supplied by one of the former incumbent energy firms¹³; and all of them said they had business energy contracts. Energy supply wasn't always high on people's priorities when they took over their business premises. Most of our participants did not appear to negotiate a new energy contract at that point, which meant they may have paid a high price for energy.¹⁴

When it came to renewing contracts, there were examples of participants using energy consultants or brokers to get a good deal for their business energy, although some felt pressured by 'hard sell' tactics. There was very little awareness among interviewees about the status of micro-businesses (even though most would fit this category) and no mention of this in relation to negotiating energy contracts.

4.1 Choosing an energy supplier

Business Debtline advises small businesses to contact utility providers if they take over a business from someone else, to negotiate a new contract. Otherwise, businesses can find they have a 'deemed contract' which usually means gas and electricity is more expensive.

¹³ These are the former gas incumbent (British Gas), and the companies formed from the former regional electricity incumbents (EDF Energy, EON, Npower, Scottish Power and SSE). Source: Ofgem, *Retail Energy Markets in 2016* (August 2016). Available at: https://www.ofgem.gov.uk/system/files/docs/2016/08/retail_energy_markets_in_2016.pdf

¹⁴ Of the 22 small businesses we interviewed, 12 said they stayed with the incumbent energy supplier when they first took over their premises. Four said they had shopped around for an energy supplier at that initial stage. Among the rest, the energy supply was either organised by someone else or we don't know.

Small businesses can use the price comparison website www.uswitchforbusiness.com to help them shop around.

There was little evidence that our participants shopped around for an energy supplier when they first took on their business premises, meaning they may have paid more for their energy. One or two had contacted the incumbent energy supplier to negotiate a new contract or checked other suppliers before deciding to stick with their existing supplier (see Box 4.1 for case studies). Most had done nothing, however.

Box 4.1 Choosing an energy supplier

Shelly stepped up her specialist comic business around three years ago, when she moved from having several market stalls to renting shop premises. The market stall rent included all utilities, so Shelly had no experience of business energy when she took on the shop. She did not negotiate an energy contract when she moved into the shop, but simply stayed with the incumbent supplier. Her energy debt was partly due to the high costs of heating older premises that were not energy efficient.

Andrea set up her sandwich shop two years ago in rented premises. There were energy bills in the shop when she took it over, so she contacted the incumbent supplier. She checked out the business energy contract she was offered by this supplier, and decided to sign the contract because it seemed competitive. She had not switched supplier since then. Her energy debt was down to under-estimated use that resulted in an unaffordable bill.

Erica took over the running of a country pub two years ago. She contacted the incumbent energy supplier on the day of the move and felt pressured into taking out a contract with them. The supplier told her that if she didn't sign up she would be put onto an 'emergency' rate that would be very costly. Although Erica did sign, she described how *"I feel I got slightly conned into it"*.

4.2 Contract renewal and switching energy supplier

Automatic contract renewal by business energy suppliers means that when a contract ends, businesses are still supplied with energy, but it normally costs more. Suppliers must communicate with businesses to explain how to prevent automatic renewal and the terms that apply if they do not renegotiate a new contract. Further regulatory action is

planned to help micro-businesses switch from automatic renewal contracts (see section 4.3).

Where the small businesses in our study had renewed their energy contract or switched supplier they often used an energy broker or consultant to help them get a good deal – sometimes because they found the tariffs confusing or difficult to compare. While some participants seemed happy with the process and the outcome, others disliked the ‘hard sell’ tactics that meant they received multiple telephone calls from brokers around contract renewal time (Box 4.2).

Box 4.2 Contract renewal and switching energy supplier

For the past 10 years, Josie has run a boarding kennels. Her electricity consumption is high as she must keep the kennels heated year-round. She described her frustrations with multiple calls from energy brokers when it came to contract renewal:

“I can go through a week and have 15 or 20 calls from these wonderful brokers that can set up energy and all this that and the other for me, and to be quite honest they're just an absolute nightmare. When you're busy, you know, and they're well how many units, I don't know, is the bill handy, you know, can you not speak to your accounts, accounts? I'm a one-man band, you know.”

Clive, who used to run a seaside café, felt much the same about contact from energy suppliers:

“... just unpleasant experiences, to be honest. You know, quite hard sales tactics by energy suppliers, constant phone calls on our café telephone line from people trying to sell energy. Literally, one or two calls a day for months, and months and months... And then finally, when I got sort of two or three quotes, you know, they're so complex these quotes, that you know, you need a degree in maths to work out what's best.”

This echoes research commissioned by Ofgem, which found negative views of energy brokers among businesses generally, with growing negativity over time possibly linked to a perceived increase in calls from brokers (despite high levels of satisfaction with broker services where they were used).¹⁵

¹⁵ Quadrangle, *Micro and small business customer engagement in the energy market, 2016. Research report prepared for Ofgem* (2017). Available at: https://www.ofgem.gov.uk/system/files/docs/2017/04/ofgem_-_micro_and_small_business_engagement_2016_-_research_report.pdf

Some small businesses in the study had tried to switch energy supplier but were unable to because of their debt, as Maggie describes:

“... with the gas or electric because I've still got arrears I have to stay with them and be charged whatever they decide to charge me. Somehow it would be good if you could sort of, I don't know, say like this is what debt you owe and you're paying them £10.00 or £20.00 or whatever and be able to swap to a new supplier that would be more better.”

One or two in this situation continued to check they were on the best tariff their supplier offered, even though they could not switch supplier.

4.3 Stimulating competition in the energy market for the benefit of consumers

Low engagement by domestic and small business users in the energy market is not a new issue and our evidence confirms what is already known. A two-year investigation into the GB energy market by the Competition and Markets Authority (CMA) showed that, in 2013, 45% of microbusinesses were on default electricity tariffs. Lack of price transparency regarding tariffs was the most significant factor behind weak consumer engagement among microbusinesses.¹⁶ Efforts to stimulate competition in the energy market, particularly for the benefit of domestic and micro-business consumers are described in Box 4.3. In particular, suppliers are now required to publish their tariffs whereas previously customers had to contact suppliers to obtain this information.

In terms of the likely effectiveness of remedies targeted at micro-businesses, our participants were generally not familiar with the term ‘micro-business’ and none of them reported any discussion with their energy supplier about whether they qualified as a micro-business.

¹⁶ CMA *Modernising the Energy Market (Short Overview)* (2016). Available at: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/531204/overview-modernising-the-energy-market.pdf

Box 4.3 Efforts to stimulate competition in the energy market

Following its investigation into the GB energy market, the CMA made recommendations to Ofgem to help improve competition in the energy market for the benefit of domestic customers and micro-businesses. These included two remedies that become effective in June 2017¹⁷:

- Enabling price transparency for smaller micro-business consumers to help them compare across energy providers
- Enabling micro-business customers to switch more easily from rollover contracts.

These remedies follow earlier efforts by Ofgem to simplify the contract renewal process for micro-businesses, through the introduction of new rules in 2015.

4.4 What can we learn from small businesses' experience of the energy market?

Unless small businesses take time to shop around they may pay more for their business energy as a result of 'deemed' contracts and automatic contract renewals - potentially adding to energy debt problems.

On the whole our interviewees showed limited engagement with the business energy market, due to lack of time, lack of awareness, confusion about tariffs or because their debt prevented them from switching to another supplier. For some small businesses, using energy consultants and brokers was straightforward and resulted in cheaper energy; for others use of consultants and brokers was marred by 'hard sell' tactics (as we saw in Box 4.2) which could put them off using these services.

Efforts to improve competition in the energy market rely on businesses knowing (or being made aware) that they fall into the category of 'micro-business'. Despite their many dealings with energy suppliers, it was an unfamiliar term to our interviewees.

¹⁷ Ofgem, *CMA Remedies Implementation Plan* (November 2016)

5 Routes into energy debt

Our analysis shows two main routes into energy debt among the small businesses we interviewed:

- Cases where energy debt was one element in a wider picture of financial difficulties
- Cases where energy debt was the primary problem, and there was no evidence of other financial difficulties.

In cases where energy debt was the primary problem for small businesses, metering and billing issues were the root cause of their financial difficulties. For small business where energy debt was one element of wider financial difficulties, there were also cases where metering and billing issues were a contributory factor. We explore metering and billing in Chapter Six.

As the study used qualitative methods (which are designed to obtain in-depth information from a small sample of participants), it is difficult to see any obvious patterns in these two different routes into energy debt. The same sorts of business activities are seen across both routes into debt; and there are no clear differences by business status or length of time in business. More than half our small businesses had been trading for ten or more years in some form. However, business longevity was no guarantee against financial difficulty: three of the five businesses that had ceased trading did so after 10 or more years of operation. That said, there were instances where inexperience seemed to play a part in the poor performance of newer businesses.

In some cases, personal circumstances also had a significant impact – something that energy suppliers and other creditors may not necessarily ask about or take into account when dealing with small business customers. As we see in Box 5.1 below, David’s long working hours took a toll on his health that, combined with a slowdown in trade, led him to close his business. Bereavement and health issues (either the respondent’s health or that of a partner) also adversely affected some businesses ability to trade, resulting in loss of earnings for a period of time followed by efforts to build the business back up. In Jenny’s case, the breakdown of her personal relationship and low business footfall lead her to use personal consumer credit to tide her over, which added to her debt problems. Dealing with energy and

other debt was often a source of stress and anxiety for our respondents as well.

5.1 Energy debt in the context of wider financial difficulties

For most of the 22 small businesses we interviewed, energy debt was one element in a wider picture of financial difficulties. Several of these businesses had tried but failed to ‘trade through’ their financial difficulty and had ceased operating by the time we spoke to them.

In some cases, energy debt seemed to be the biggest problem that these small businesses faced, although they were in arrears to other creditors as well. For others, energy debt was part of a general decline in business that saw them struggling financially. Across the piece, problems with energy metering and billing were relatively common as the cause of these businesses’ energy debt. We discuss metering and billing in Chapter Six. High energy use due to the nature of their business or energy inefficient premises was also an issue for some.

As our case studies illustrate, the reasons for businesses’ wider financial difficulties generally related to a downturn in trade. Specific factors included:

- The impact of the 2008 global financial crisis, particularly noted by convenience shops and newsagents.
- Changing consumer habits such as the decline in print newspapers (affecting newsagents) and changes in alcohol consumption (affecting pubs).
- Increased competition, again often an issue for convenience shops and newsagents when large supermarkets or their smaller ‘local’ offshoots moved into their area. A boarding kennels had seen its business suffer due to the rising popularity of other services such as dog-sitting and more dog-friendly holiday accommodation.
- Reduced footfall because of parking restrictions, roadworks or local construction work.

Box 5.1 Energy debt as part of wider financial difficulties

David bought a newsagent shop 12 years ago. Changes in newspaper buying habits, the increased cost of lottery tickets, and finally the opening of a large supermarket nearby meant he was working longer hours, for less money. Eventually, due to concerns over his health, he closed the business. *“I was doing 80 hours a week for very little return, my wife sat me down and said you're going to die in that shop if you carry on”* Following a spell out of work (when he was not entitled to any social security benefits) he now has a job. He and his family are still struggling because of the debts they built up while he had the shop, including energy debt.

In hindsight, some interviewees acknowledged that they had been *‘living in denial’* about the state of their business and should have got help sooner, as Linda (who had run her family business) described:

“... my brother did say to me years ago, look you know, things aren't looking good and I kept, I was frightened really, I suppose I was frightened of the unknown, I was frightened to give it up because I didn't know what I would do but I also knew that I should give it up.”

5.2 Energy debt as the primary problem

For other small businesses, energy debt was their primary problem, and it related solely to issues with metering and billing. They generally had no other financial difficulties.

They comprised several retail shops and the two landlords in the sample; most had been in business for at least two years. All but one of these businesses were still trading. The exception was a family business run by Helen and Steven for 10 years (see below), which they decided to close when they were unable to negotiate the repayment of a large electricity debt.

Box 5.2 Energy debt as the primary problem

For 10 years, Helen and Steven ran a bakery that had been in Steven's family for many years. Early in 2016, the direct debit that paid their business electricity was somehow cancelled. They don't know how this happened and unfortunately neither they nor their accountant spotted it. Because of this mishap, they did not pay for electricity for 12 months. They didn't hear anything from their electricity supplier about the non-payment either, until they received a letter informing them of arrears totalling around £9,000 and wanting immediate payment of around £5,000 with the rest repaid via a repayment plan. As Helen described:

"The first we knew about it was a very threatening letter at the start of January saying... pay £5,000 or we're going to cut you off. That was the only thing we had... I mean how can somebody run up that amount of electric bill ...and not be red flagged before that?"

Helen and Steven could not afford the amount the supplier demanded and the supplier was not willing to accept a repayment plan for the full amount owed. If the supplier carried out its threat to disconnect the shop's electricity they would not be able to trade. In the absence of any workable solution, Helen and Steven took the difficult decision to close their business.

5.3 What can we learn from these routes into debt?

Among the small businesses we interviewed, energy debt was often one element in a bigger picture of financial difficulty, where the catalysts were a combination of poor trading conditions, changing consumer habits, tough competition and sometimes personal factors as well. Trading through debt could be a real challenge in these circumstances.

Metering and billing problems were a common cause of energy debt for our small businesses – a contributory factor for some, but the only issue for others. These problems should be preventable, and would have saved small businesses and suppliers a great deal of time and money had they been avoided. Chapter Six examines in more detail the metering and billing problems that our small businesses experienced, and that resulted in energy debt.

6 Energy metering and billing

Whatever small businesses' route into problem debt, metering and billing issues were a common source of energy arrears – either as the sole problem or a significant contributory factor. Out of the 22 small businesses we interviewed, 14 of them had energy debt that stemmed from issues with metering and billing. The range of problems with metering and billing included:

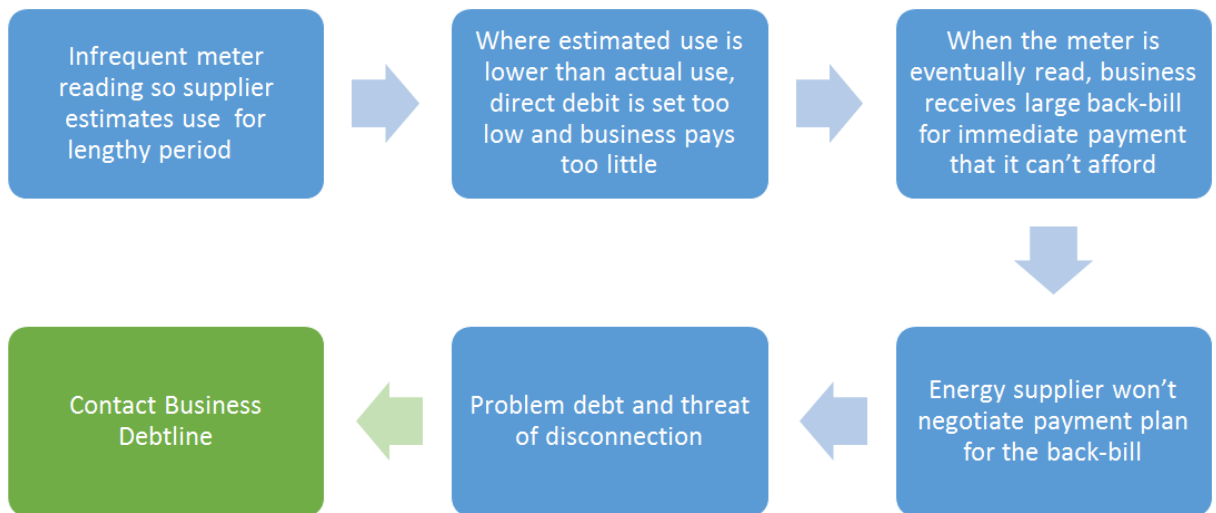
- Disputed bills that ended up in court
- Errors and delays in bills that resulted in suppliers' demanding payment in full of amounts that businesses could not afford
- Errors with payments that were not picked up, such as a direct debit somehow cancelled (as happened to Helen and Steven in the earlier case study); and online payments not credited to the business's account
- Suppliers unwilling to negotiate payment plans to spread the costs of energy use or the repayment of energy debt that resulted from metering and billing problems.

The single most common metering and billing problem that resulted in energy debt occurred when suppliers' read meters infrequently, relying instead on estimated bills that under-estimated actual usage. By the time suppliers read the meter and calculated the difference in what was owed and what had been paid, small businesses could face a 'catch-up' bill or back-bill that they could not afford to pay in one go. This route into debt is summarised in Figure 6.1 and explained in more detail below.

Poor communication between our interviewees and their energy suppliers often made a bad situation worse, as our case studies illustrate. Small businesses were sometimes at fault as well, for example ignoring contact from their energy supplier or not keeping track of their energy use.

We describe below the steps that lead to energy debt as a result of back-billing.

Figure 6.1 Energy debt as a result of infrequent meter reading and estimated billing over long periods



6.1 Step 1, Supplier reads meter infrequently and under-estimates energy use

The first step is for the supplier to read a small business’s meter infrequently, relying instead on estimated bills that under-state the business’s energy usage. Energy suppliers must take all reasonable steps to obtain a meter reading at least once a year.¹⁸ This was not always the case according to some of the businesses we interviewed. There were also cases of erroneous low bills because energy providers had read the wrong meter.

Business Debtline also advises businesses to read their own meters regularly and submit them to their supplier. There was little evidence of small businesses in our sample doing this (or knowing that they should).

“Often it seems to be issues of inaccurate meter readings coming about so the clients thought it was all okay and then suddenly the debt is much greater than they thought, because neither party was tracking their usage.” (Business Debtline adviser)

6.2 Step 2, Supplier sets low direct debit

In the second step, the energy supplier sets a direct debit amount that is too low because it is based on under-estimated use rather

¹⁸ Business Debtline, *Factsheet BDL50 EWS Commercial energy debt January 2016* and www.energy-uk.org.uk/files/docs/Policies/Micro%20business/VoluntaryStandardsforBackbillingofMicroBusinessCustomersApril2.pdf

than actual use. The infrequency of meter readings reported by our small businesses meant there was time for a significant amount of debt to accrue due to under-billing and low direct debit payments. Some interviewees were conscious that the amount they were paying was probably not enough to cover their energy use. One proactively contacted her energy supplier to increase the direct debit (from £600 to £800 per month), but then struggled when six months later the supplier increased the amount to £1,200 with little warning.

6.3 Step 3, Supplier back-bills for full amount owed

In the third step, once the energy supplier does read the meter and finds that a small business has used more energy than it has paid for, it sends the business a back-bill for the full amount owed. Among our interviewees, the full amounts ranged from around £1,500 to well over £70,000 which had accrued over 10 years.

There are voluntary supplier standards for back-billing micro-business customers (Box 6.1). None of our interviewees mentioned any time limits on the amount they were back-billed, and it seems unlikely from the interview data that any of them would have fulfilled the responsibilities required to benefit from the standards.

Box 6.1 Energy UK and ICOSS voluntary standards for back-billing microbusiness energy customers

There exist voluntary standards for back-billing microbusiness energy customers.¹⁹ Suppliers that sign up to the standards should not back-bill microbusiness customers for more than three years for an electricity bill and four years for a gas bill provided the microbusiness has fulfilled the responsibilities set out in the standards. Among other things, these responsibilities relate to meter readings, communication with the supplier and resolving queries. In practice, many suppliers have agreed shorter time limits, generally one year. Standard 1- Customer responsibilities in relation to bills is reproduced in full in the Appendix.

6.4 Step 4, Supplier not willing to negotiate

In the final step in the series, the energy supplier is not willing to negotiate a repayment plan for the back-bill with the business. If the business cannot pay the full amount, the energy supplier threatens

¹⁹ <http://www.energy-uk.org.uk/files/docs/Policies/Micro%20business/VoluntaryStandardsforBackbillingofMicroBuisnessCustomersApril2.pdf>

disconnection. None of our interviewees who found themselves in this situation could afford to pay the full amount owed (Box 6.2).

Box 6.2 Energy debt as a result of back-billing

Laura runs a small business selling ethnic food. Based on estimated use, her energy supplier proposed a direct debit of £35 per month. As it's a small shop, Laura thought this amount was OK but in fact it was far too low. When the meter was read six months later, Laura received a demand for the full £1,500 arrears. Unable to afford this sum, Laura tried but failed to negotiate a repayment plan.

"I obviously contacted them and said well that's a bit of shock to the system, because that's not what I was expecting. And I wasn't in a position to pay that at the time. And then it just rolled on and rolled on... in the meantime, the shop's still open, and this electricity's not getting any less."

Unsure what to do, she ignored the problem until she was threatened with disconnection. By that time, the electricity arrears were £5,000 because the direct debit amount had remained at £35 per month and then it seemed to have been cancelled altogether (but not by Laura).

6.5 What can we learn from these problems with metering and billing?

Metering and billing issues meant that debt accrued to an unaffordable sum over a period of time. The single most common problem our small businesses described was a vicious cycle of infrequent meter readings, estimated or erroneous bills, under-payment, and the accumulation of large debts that they could not afford to pay but suppliers were not prepared to negotiate. None of our small businesses seemed to have fulfilled the responsibilities necessary to benefit from the voluntary industry standards on back-billing.

While small businesses were sometimes at fault too – for not keeping in contact with their supplier or ignoring warning signs – their experiences of communicating with energy suppliers when they did try and sort things out were generally poor. We return to the issue of communication in Chapter Seven, which looks at the advice journey that our small businesses underwent to try and resolve their energy debt.

7 The advice journey

By the time our small businesses contacted Business Debtline, their situation was already serious and they often faced threats of disconnection which would jeopardise their business. The design of the study meant we did not speak to small businesses that were able to self-negotiate with their energy supplier without professional support from Business Debtline.

Having got nowhere in their discussions with energy suppliers, small businesses were either referred by their supplier or another advice provider to Business Debtline, or they found out about Business Debtline from their own online searches. The advice that small businesses received from Business Debtline usually centred on negotiating a payment plan with the energy supplier. There were more complex cases where disputed debts went to court or the Energy Ombudsman.

From our interview data, there seem to be few other sources of help or support for small businesses in debt. Some of our interviewees were referred to Business Debtline after they had sought help from another advice provider. Several had spoken to their accountant; one had paid for help from a specialist firm when he put his business into administration. One interviewee was part of a closed Facebook group for local business people which she found helpful in terms of moral support. Others would have welcomed some moral support, as Doug describes:

"I have a couple of friends who knew what I was going through and they offered to help, financially as well as help me, but no not really, I don't think there is anywhere where you can just go and have a chat with somebody."

The rest of this chapter describes the advice journey experienced by our small businesses – what prompted them to seek help; how they got in touch with Business Debtline; the advice they received; and how they put that advice into practice.

7.1 Getting nowhere with energy suppliers

Prior to speaking to Business Debtline, the small businesses we interviewed were generally in contact with their energy suppliers for reasons that included:

- Receiving a demand for full payment of arrears, usually due to back billing (as outlined in Chapter Six)
- Receiving a threat of disconnection
- Difficulty paying a bill or affording an increased direct debit
- Missing a payment
- Trying to sort out a billing error
- Informing the supplier that a business had ceased trading - one interviewee was unaware of the extent of his business energy debt until this point.

In their efforts to sort out their debts without professional advice, our small businesses found communicating with energy suppliers frustrating on several levels, as we describe in Box 7.1.

Box 7.1 Problems communicating with energy suppliers

The small businesses we interviewed found communicating with suppliers about their energy debt frustrating on several levels: because communication was sporadic; suppliers did not respond to letters, emails or phone calls; and they gave inconsistent information and advice, as Maggie described:

“... it is constantly time consuming because you spend time putting it all in place and then you get five letters all saying the same thing and then you get another letter saying something completely different that you have to pay us this, this and this and this, and you think well how has that happened? So, then I have to ring them back up or now I e-mail them more and it just takes time.”

The biggest communication issue reported by our interviewees – in terms of how often it was mentioned and its impact – was the unwillingness of energy suppliers to negotiate affordable repayment plans. This was often a trigger for businesses to contact Business Debtline or to be referred to Business Debtline by their energy supplier.

7.2 Getting in touch with Business Debtline

By the time our interviewees contacted Business Debtline, their situation was serious and they often faced threats of disconnection which would jeopardise their business; a few businesses had already stopped trading. From the perspective of Business Debtline advisers, it is more challenging to help small businesses at this late stage:

“Where we’ve got to the threat of disconnection stage it’s normally a lot harder to try to rectify that situation. If we could get hold of the client earlier then hopefully that would stop the need to get to that stage.” (Business Debtline adviser)

The small businesses in our study had generally been unaware of Business Debtline and came to contact with the service in one of three ways:

1. They were referred by their energy supplier
2. They were referred by another advice provider
3. They found out about Business Debtline from their own online searches.

Other less common routes to Business Debtline included seeing the telephone number on an energy bill; or a recommendation from their accountant or another business owner.

7.2.1 Referral by energy supplier

Business Debtline has referral arrangements with five energy suppliers for small businesses with energy debt. These suppliers will usually agree to place a customer’s account on hold for a period of time, while the customer seeks advice from Business Debtline (Box 7.2). The success of these arrangements depends on frontline staff at energy companies having a good understanding of the service Business Debtline offers and how it is able to support clients.

Box 7.2 Good practice – referrals by energy suppliers

The Business Debtline advisers we interviewed welcomed referral arrangements with energy suppliers that give small businesses ‘breathing space’ to get professional advice without fear of further action:

“If that client had been actually referred by the utility company then when they refer them to us they generally say to the client we’ll put a hold on everything for 30 days whilst you speak to Business Debtline. Speak to them, have advice from them, draw up a budget, come back to us, give us the reference number.” (Business Debtline adviser)

A possible downside was that small businesses obtained the reference number but did not engage with Business Debtline – in the advisers’ experience, this was uncommon.

In keeping with this, where our small businesses were referred to Business Debtline by their energy supplier, the supplier was always one of the Big Six firms (and one firm in particular). Small businesses described being referred to Business Debtline by their supplier in order to obtain a reference number. Once the supplier received confirmation of this reference number, small businesses expected to be able to negotiate a repayment plan.

"[Energy Supplier] said if you are working with Business Debtline, then we will work with you. So that is why I went to Business Debtline."

7.2.2 Referral by another advice provider

Our small businesses that were referred to Business Debtline by another advice provider were all ones where energy debt was part of wider financial difficulties and they also had other business or personal debts.

They typically approached a local free-to-client advice provider because they did not know where else to go for help. The prompt for seeking advice could be the lack of progress in their own negotiations with creditors, as Doug described in relation to his disputed gas bill:

"... it was getting serious, nobody was listening to me, nobody was returning calls and it was just 'this was what you owe and we're not listening and if you don't do it then we'll cut you off'."

Others were not necessarily looking for help with their business debt. For example, they had gone to a local advice provider to get help with personal debt and were referred to Business Debtline when they disclosed their business debts. One interviewee was told about Business Debtline by a local advice provider when she went there to get a referral to a food bank.

7.2.3 Online searches

Several of our interviewees turned to the internet to look for help when they were unable to negotiate with their energy. They came across Business Debtline using search terms such as 'debt problems'. A few also accessed online information about negotiating with energy suppliers and making payment offers (although they could not remember the source of this information).²⁰

²⁰ Business Debtline has online information and Factsheets that interviewees may have used.

7.3 Getting help from Business Debtline

For the most part, our interviewees wanted help from Business Debtline to negotiate with their energy supplier and agree an affordable repayment plan for their arrears. There were a few exceptions where small businesses had other objectives – such as finding out how to make a formal complaint to a supplier; how to deal with a business loan secured on their home; and how to manage debts while closing the business.

Overall, our small businesses were very positive about their experiences of Business Debtline, finding its advisers knowledgeable, understanding and non-judgemental. We have written elsewhere about the value of professional support for people in debt to deal with their creditors.²¹ This value was also evident among our small businesses dealing with energy debt, as we see in Box 7.3.

Box 7.3 The value of professional support for small businesses

Connection: the professional support provided by Business Debtline means that small businesses feel they have some back up in their dealing with energy suppliers and other creditors. That Business Debtline understood small businesses was also a big help, as Jean described:

“Business Debtline they were very good, they sort of, they understood. Because when you talk to banks as well, banks don't always understand... they don't realise that you need cash in every day to go and buy stock to put on the shelf for that day, they think the money that you're taking in should go and pay their bills.”

Mindset: professional support to self-negotiate makes self-negotiation feel do-able and gives small businesses the confidence to put their case in negotiations with creditors, as Maggie describes:

“... [BDL adviser] was able to talk to me about how I should speak to the energy people and then I was able to sort of ring them and say I'll pay my, you know, usage plus £10.00 a month.”

Ability: this refers to the knowledge and skills that small businesses gain from professional support, such as finding out about the options for dealing with business debt; the skills and tools to deal with their debts (such as a properly worked-through income and expenditure assessment); and knowing their rights and responsibilities on issues like

²¹ Sharon Collard and Sara Davies, *Self-negotiators: The Experiences of People in Debt who Self-negotiate with their creditors* (2017). Money Advice Trust.

disconnection and how to complain to the energy ombudsman, as Josh described:

“And I spoke to a guy [at BDL]... he was absolutely fantastic, to be honest. He asked questions which I hadn’t even thought about. Things about tax returns and stuff like that. And he gave me loads of useful information and lots of good contact details.”

Small businesses also talked about other valuable ‘take-aways’ from Business Debtline like keeping a closer eye on their finances, realising the importance of keeping in touch with creditors, and paying more attention to their energy usage and billing, as Andrea described:

“Well it's kind of made me a bit more careful... whatever I can turn off at night in the shop I do and as soon as I'm out of the shop I put the lights and stuff off and I'm a lot more conscious obviously because I'd like to try and keep my bills down.”

With little prior knowledge or awareness of Business Debtline, our small businesses were generally happy to receive professional advice that they actioned themselves (i.e. self-help).²² Linda (referred by her energy supplier) was disappointed to find she would have to continue dealing with the supplier herself – but managed to do this despite her initial reluctance:

“...originally I was hoping that maybe they would be able to contact them for me and, you know, to stop it going to court, sort of thing, but I understand that couldn't happen... I didn't want to deal with them myself, no”.

A small number of the businesses we interviewed were less positive about Business Debtline, because they felt the service had done little to help them. These tended to be businesses that had other debts as well as energy arrears. They were also cases where either their problem debt was complicated by other factors, such as disputed debt with an ex-business partner or business debt secured on their own home; or they found it difficult to provide information about their business income and expenditure, as Josie describes:

²² A few small businesses in our study reported that Business Debtline *had* intervened with their energy supplier on their behalf. It wasn’t clear from the interview data why this had occurred for this handful of small businesses and not for others.

“... I mean they [Business Debtline] weren't rude or anything, they'd just nothing to suggest... They were more wanting to deal in positives and finite and there isn't, you know, I don't know how much I'm going to earn this week.”

7.4 Putting advice into practice

Most of the small businesses in our sample acted on the advice they received from Business Debtline, and generally made progress in sorting out their energy debt with their supplier – although this was not always entirely straightforward, as we see in Chapter Eight.

A few interviewees did not follow the advice given by Business Debtline concerning their energy debt. Doug, who disputed the gas debt for his leased pub, decided to go to court against the advice of Business Debtline (and his energy consultant) rather than continue to try and negotiate with his supplier (we return to Doug's case in the next chapter). Faced with a £2,000 back-bill for her sandwich shop, Andrea contacted Business Debtline about making a formal complaint against her energy supplier. Business Debtline instead helped her work out a payment plan but in the end Andrea decided to stick with the monthly payment that the supplier wanted, in order to repay the debt quicker.

7.5 What can we learn from small businesses' advice journeys?

Our small businesses came to Business Debtline late in the day, by which time it was challenging to sort out their energy debt. It was often a lonely, fraught journey to this point, with our interviewees trying but failing to negotiate with suppliers, often hampered by poor communication. Getting to professional advice earlier may have aided a quicker resolution.

Unaware of Business Debtline, the fact that our interviewees got professional help usually hinged on referrals from their energy supplier (once they'd reached an impasse) or a non-business advice provider. Agreed referral pathways between suppliers and Business Debtline and 'breathing space' for small businesses to get professional help were cited as examples of good practice by Business Debtline advisers. Advisers were keen for energy suppliers to refer small businesses to them earlier, before problem debt became a crisis and there were likely to be more options for sorting things out.

With a few exceptions, our small businesses were positive about the help they received from Business Debtline, which most had been able to put into practice. The next chapter looks at how our small businesses got on dealing with their energy debt.

8 Getting to an outcome

Although our small businesses contacted Business Debtline when their situation was already serious (and a few were no longer trading), on the whole the outlook for sorting out their energy debt seemed positive. There were, however, cases where our interviewees were in limbo at the time we spoke to them and the outcome regarding their energy debt was unknown. There were a further two cases where small businesses were unable to negotiate with their energy suppliers despite having professional support from Business Debtline. We explore these different outcomes below.

8.1 Outlook generally positive

Where the outlook seemed generally positive, small businesses had managed (with professional support) to reach a satisfactory outcome to their energy debt. For the most part, the satisfactory outcome comprised a payment arrangement negotiated with their energy supplier that small businesses were able to pay (and had been paying). In some cases, this was a relatively easy process and helped by the fact that small businesses had consulted Business Debtline.

In some cases, a positive outcome had been harder to achieve. For Doug a payment plan for his disputed gas debt was only agreed once he had been to court to determine the amount he owed, which was lower than the energy supplier's final demand. For Francesco, sorting out the repayment of a large back-bill was long-winded and frustrating as we see in Box 8.1.

Box 8.1 Outlook generally positive

Francesco set up an ice-cream shop in leased premises. When he received his first electricity bill eight months after moving into the premises (and in his low season), he couldn't afford to pay the full amount. Referred by the supplier to Business Debtline, he got advice about negotiating a payment plan. When he received no response from the supplier to his offer, he assumed it had been accepted. However, the supplier subsequently took the full £4,000 that he owed from Francesco's bank account. When he protested, the supplier returned the money but added a £50 late payment charge to his account:

"I thought they accept it, but... they just tried to take the whole amount from my business account so they took basically almost £4,000.00 from my bank account, which I didn't tell them to do it, they weren't allowed to do it. Then I had to call them back to get the money back of course."

After several more phone calls, the supplier agreed Francesco could pay £400 per month - a much higher figure than Francesco had been advised to offer by Business Debtline. Francesco felt he had little choice but to accept. With business picking up, up he was confident of repaying what he owed but annoyed and frustrated with the supplier: "... they didn't want to listen... when the season starts and I will be able to pay more, but they didn't want to listen and they just didn't care about what kind of business, they just wanted the money."

Like Francesco, there were several other small businesses that, in the absence of a response from their energy supplier, just assumed things were resolved. Given that poor communication by suppliers was often a factor in energy debt, this seems a risky assumption for small businesses to make, as noted by a Business Debtline adviser:

"... we see that a lot, people bury their heads in the sand, if they've not got a response they think okay I'll keep quiet and then suddenly it's a big problem."

Paul, for example, successfully took his case of back-billing to the Energy Ombudsman, which halved the amount of arrears he had to repay. When we interviewed him, Paul had been unable to agree an affordable payment plan with the supplier for the amount he still owed. Instead, he set up a monthly standing order for the same amount he had offered the energy supplier and, having heard nothing further, assumed that he had averted the threatened disconnection.

What about the bigger picture for these businesses? Where small businesses were making progress with their energy debt, they tended to feel fairly confident about their business as well. This was particularly the case for small businesses where energy debt was the only debt they had, arising from metering and billing problems. There were cases where small businesses still faced difficult trading conditions, however, even though their energy debt was on the way to being repaid.

8.2 In limbo

Where small businesses were in limbo with their energy debt, they almost all had wider debt problems, which were the result of a

downturn in business. They included three small businesses that had ceased trading, and had either had their energy supply disconnected or expected this to happen. For all of them, debt had been a stressful experience and they worried about the future, as Linda describes:

“I'm not blaming anybody, I know it's my debt and I know I've got to sort it, but it's just really hard and the thing is, you know, people think that you go off on holidays and you have flash cars and you're spending your business money that way, but it's nothing further from the truth.”

The outcomes for these businesses regarding their energy debt were uncertain. The payment of their energy debt either depended on the sale of their business; or else they thought the debt might be written off. One interviewee was waiting to resolve a dispute over liability with an ex-business partner.

Shelly, who ran a specialist comic shop, was in limbo for a different reason. She had, with Business Debtline's help, negotiated a payment plan for her relatively small electricity arrears (around £200). However, despite cutting business costs, she hadn't been able to stick to the agreed payments, having prioritised food and household essentials for her family, as she explains:

“... after going through a period where you can't afford basics, I'm just buying basics and then everyone else can wait then.”

Shelly was paying off what she could towards her electricity arrears at the post office and was reluctant to set up another payment plan with the supplier. Unless Shelly could arrange to pay smaller sums towards her remaining electricity debt, it was unclear what would happen.

“I've had a phone call off them [energy supplier] saying well you need to pay it all off, you've broken that agreement, we need to set something else up and I've basically said I can't promise, because I've broken that previous agreement how can I promise you that I won't do it again, I've just got to feed money in when I can.”

8.3 Failed negotiation with energy suppliers

There were two cases where small businesses had failed to agree a payment plan with their energy supplier, even with professional support from Business Debtline.

Helen and Steven, who we met earlier, could not afford to pay the £9,000 they had been back-billed for their bakery's electricity (their only debt), after their direct debit was cancelled and went unnoticed. Although their supplier referred them to Business Debtline, it would not accept the payment plan that Business Debtline helped them produce. As a result, Helen and Steven came away with the impression that the supplier had just been 'going through the motions':

"... they were good at saying about using Business Debtline, but then I'm using Business Debtline and then they're still not actually happy. So, it was almost like, through using Business Debtline, to go through the motions of 'we're doing our part, we're advising you to use Business Debtline. We're the good guys'. But then not actually doing anything about it."

Worried about not being able to pay the mortgage on their home if they paid the energy debt, Helen and Steven decided to close the business. At the time of the interview, they were waiting for the shop's energy supply to be disconnected.

Grace's energy debt stemmed from a downturn in business at her hair salon. By the time she contacted Business Debtline, the energy supplier had already applied for a warrant to disconnect her electricity. Helped by Business Debtline, she put forward a payment plan that the supplier refused to accept unless she also made a lump sum payment towards the debt. To avert imminent disconnection, Grace reluctantly borrowed £1,000 from a family member to pay in a lump sum, and was then able to agree a repayment plan. She was unhappy that, even with Business Debtline's intervention, the supplier was not prepared to negotiate and that she had to borrow from her family as a result. Concerned that the business wasn't sustainable, she planned to cease trading:

"Once I can pay off the bills, the arrears, we'll just have to wind down."

8.4 What can we learn from these outcomes?

The outcomes achieved by our small businesses after they sought help from Business Debtline depended on the extent and nature of their energy debt and the response they got from energy suppliers.

The end of the advice journey for most of them looked fairly positive, at least in terms of repaying their energy debt. There were question

marks over the longer-term viability of some of these businesses. Other small businesses took a 'no news is good news' approach and assumed by suppliers' silence that their offers had been accepted – potentially a risky strategy.

The position of the remaining businesses was far less healthy – they were either waiting to sort out energy debts for businesses that had already ceased trading, or had closed their business because they could not reach an agreement with their energy supplier, even with Business Debtline's help.

9 Learning and implications

This report is based on qualitative research with small businesses that were in contact with Business Debtline in the 24 months prior to the study (approximately March 2015 and January 2017) and were willing to participate. All of them had contacted Business Debtline at a late stage when they were already in serious energy debt and often faced the threat of disconnection.

While we cannot generalise from experiences of our small businesses to all Business Debtline clients with energy debt, the interview data provides valuable insights on key issues that were corroborated by Business Debtline advisers. This final chapter draws together the learning and implications of the research around four themes:

1. Energy education to prevent small businesses accruing large energy debts.
2. Better communication by energy suppliers with their small business customers.
3. Better referral pathways so small businesses get help sooner.
4. Getting the message across about measures that can benefit micro-businesses.

9.1 Energy education

Issues with metering and billing were often at the root of our small businesses' energy debt problems. These problems should be preventable – by better monitoring of energy usage and direct debits that reflect actual rather than estimated use, so that large arrears do not build up.

Our small businesses seemed unaware that they should monitor their energy use and submit regular meter readings to their supplier – and Business Debtline advisers confirmed that this was not unusual among the clients they dealt with. To be able to perform this task, small businesses need to know where their meters are; the right meter to read if there is more than one; and how to take the reading. This can be more difficult than it sounds – there were instances where energy suppliers read the wrong meter, for example.

A user-friendly 'welcome pack' produced by the energy industry could be one way to give small businesses generic information about their responsibilities and the responsibilities of their energy supplier in

relation to metering and billing, for example when they move into new business premises. The information should reflect the industry's voluntary standards for back-billing, so that small businesses have a chance to comply with the responsibilities they need to fulfil in order to benefit from the standards.

Energy suppliers also have a responsibility to read meters regularly. Alerting business customers earlier to the risk of under-paying would have helped our small businesses, as would agreeing an affordable increase in direct debit payments as soon as under-paying becomes apparent.

The roll-out of smart meters for business customers may help prevent back-billing problems, provided they work properly; and offers an opportunity for the energy industry to promote key messages about business energy to customers.

9.2 Better communication

Better communication has the potential to make dealing with energy debt quicker and more efficient, without recourse to professional advice. Based on our interviewees' experiences, from the supplier side this would include timely responses, consistent messages from energy suppliers, better paper trails of interactions with small businesses – plus a greater understanding among frontline energy staff about small and micro-businesses.

Business Debtline advisers stressed the importance of small businesses keeping in touch with their energy suppliers as well – something that a few of our interviewees had avoided.

Some small businesses in the study had a positive experience of working with their energy supplier to sort out their energy debt – for example where energy suppliers showed understanding and took a flexible approach to small businesses in difficult circumstances. Business Debtline advisers also noted, from their experience, a more flexible approach among energy suppliers to small and micro-businesses with energy debt.

Other interviewees reported less positive experiences of communicating with their energy supplier. Common problems were mixed messages from energy suppliers about dealing with energy debt; no clear action plan or deadlines for action; and poor or no records of interactions with small businesses.

9.3 Better referral pathways

The proportion of callers to Business Debtline reporting problems with their utility bills has almost quadrupled since 2010, with some of the increase due to increased referrals by energy companies.

Without a referral from their energy supplier (or a non-business advice provider) a lot of our small businesses may never have got professional advice about their energy debt. Business Debtline advisers also valued the referral arrangements they had with some of the large energy suppliers, and were keen to see similar arrangements with other providers.

In the advisers' experience, referral pathways work best when energy suppliers give customers some information about Business Debtline and the service it offers, so that small businesses aren't coming to the service 'cold' and they know roughly what to expect when they speak to an adviser. Business Debtline advisers also championed the idea of energy suppliers including Business Debtline's contact details and a brief description of its service in a prominent place on final demand letters.

Referrals made earlier in the debt cycle would also yield better outcomes for small businesses and energy suppliers. Better, more frequent monitoring of energy usage and billing, as described in section 9.1, could facilitate this

9.4 Protections for micro-businesses

Almost all the small businesses in our study would fall into the official definition of 'micro-business' and could potentially benefit from the extra protections and provisions that have been put in place for micro-businesses by the energy regulator and the energy industry.

Our small businesses were generally not familiar with the term 'micro-business' and none of them reported any discussion with their energy supplier about whether they qualified as a micro-business.

Unless small businesses are aware that they are a micro-business, they cannot benefit from the protections available to them or help drive competition as hoped. The onus is on the regulator and the industry to make sure that businesses know about these protections and their likely eligibility, working with messengers such as accountants and business support services.

Appendix

This appendix provides further details about the research methods used in the study.

We recruited a total of 22 Business Debtline clients to the study. The Money Advice Trust and Business Debtline emailed clients who fulfilled the following criteria:

- They had been in contact with the service in the 24 months prior to the study (approximately March 2015 and January 2017)
- They had energy debt, and
- They had agreed to be re-contacted by Business Debtline.

Following the email, Business Debtline clients who expressed interest in participating in the research were contacted by the Money Advice Trust, who gave them further information about the study and what an interview involved. The client's details were then passed to the Personal Finance Research Centre to arrange a convenient interview time.

The interviews were carried out by telephone using a topic guide (see overview of the topic guide below) and were between 30 and 60 minutes long. All participants received £20 in shopping vouchers as a thank-you for their time (which is a standard procedure in qualitative research). The interviews were recorded with the respondents' permission, fully transcribed, and analysed thematically.

In addition, we conducted three telephone interviews with Business Debtline advisers to understand small business energy debt from their perspective and examples of good practice among business energy suppliers. These interviewees were identified by Business Debtline.

Overview of interview topic guide for small businesses with energy debt

1. Introduction
2. Brief personal details and check questions
3. Routes into self-employment
4. Current state of play with their debt problems
5. State of the business and dealing with business finances
6. Their business premises and energy supply
7. Brief history of their business debt problems
8. Actions before they contacted Business Debtline
9. What they wanted from an advice provider
10. Their contact with Business Debtline
11. What happened next?
12. Negotiating with their creditors
13. Their views about dealing with their debts with the help of Business Debtline

Energy UK and ICOSS voluntary standards for back-billing microbusiness energy customers. Standard 1 – Customer responsibilities in relation to bills

Standard 1: Customer responsibilities in relation to bills

Customers should pay for energy they have used and should help their supplier with obtaining meter readings and resolving queries.

1. When you move into new premises:

- Check thoroughly to see how many meters there are on your premises.
- Register with a supplier straightaway.
- Read the meters, and make sure your gas and electricity supplier has your correct name and address - it is your responsibility to ensure your supplier knows your details.
- If you have not registered with a gas or electricity supplier you are deemed to have an energy contract with the supplier that was previously supplying your property. You are expected to pay your bill for any energy consumed.
- Any communication from a supplier addressed to you or the occupier should be opened and read.
- If you do not receive any correspondence from an energy supplier, or the correspondence is addressed to someone else, you must take steps to find out who your supplier is³ or to register with a new supplier.

2. When you move out of a premises notify your energy supplier and give them readings for all of your meters – This will help to ensure that you are only billed for the energy you have used.

3. Give regular meter readings - Energy Suppliers must take all reasonable steps to obtain a meter reading at least once a year⁴ but registering correct meter readings over the phone or online will help your supplier send you more accurate bills. It is your responsibility to make sure you provide access to meter points.

4. If you think you're paying the wrong amount, contact your supplier as soon as possible – Fixing the problem early on will avoid building up debt that is harder to pay off. If you are not sure if you are paying too much or too little, call your energy supplier. They can help you understand your energy use and may well be able to offer support, for example through allowing you to negotiate repayments you can manage.

5. Regular billing - Check with your supplier how frequently you should be billed. If you are not receiving bills as regularly as expected for all your meters, ensure you contact your supplier as soon as possible.

6. Keep paying for your energy if you dispute a part of your bill – Continue to pay for ongoing consumption and undisputed elements of your bill where all or part of a bill is disputed.

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.

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