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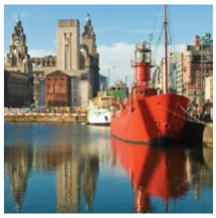
CHARTERED ACCOUNTANTS



Routes to finance: What are the options?

A guide for clients

The information below gives a brief overview of some of the main types of funding available. We regularly add details of new sources of funding to our website www.bwm.co.uk as news items. We would be happy to discuss any funding needs with you and put you in touch with our recommended contacts.

Types of funding

Bank Overdrafts

Overdrafts allow you to cover costs in the short-term, such as an unexpected cash flow problem that leaves you unable to pay an invoice. They should only be used when you must pay out more than you have in your account and are thus not a method of long-term financing.

While using an overdraft is not negative in itself, extensive use may call into question your business's financial situation. Otherwise, overdrafts provide a fast and flexible way to access short-term finance.

Remember to agree an overdraft limit with your bank if you want to limit the charges. You will most likely pay a fee (as well as interest on the money borrowed) but this will increase if you borrow more than your current limit.

Invoice Finance

Invoice financers provide money based on the value of unpaid invoices you have sent to clients.

There are 2 types of invoice finance:

Factoring: providers purchase the amount owed to you by customers, making them responsible for collecting the debt, managing your sales ledger and carrying out credit checks.

They will make an initial payment to you (often around 85% of the invoice's value) before paying the rest when they have received payment from the customer. Invoice financers will charge interest and fees for using their services.

Invoice discounting: the provider will loan you a percentage of the value of your unpaid invoices but you will be responsible for collecting payment and managing your ledger. You will repay the loan as your clients pay their invoices plus the fees charged by the financer.

Import Loans

Structured short term loans provided to enable items to be purchased with repayment terms coming from sale proceeds.

Ideally, there should be a confirmed order to support loans and the key is that the term of the loan should match the business trade cycle. Import solutions are available when there is no confirmed order in the background.

Term Loan

A bank loan that can be set over a period typically up to 10 years but can be longer – fixed repayments and not repayable on demand.

Asset Finance

Hire Purchase or Finance Lease – used to fund the purchase of assets - spreads the cost of the asset over an agreed period typically up to a maximum of 5 years.

Sale & Leaseback
Similar to the above, but used to release funds from assets already owned by the business which are unencumbered.

Enterprise Finance Guarantee Loans
Term loan with a government guarantee and is designed for viable businesses who do not have supporting security or a track record. Minimum £25k and there is a government premium of 2% per annum on the balance payable quarterly.

Commercial Mortgages
Provided to finance purchase of company trading premises with level of funding linked to the value of the building. Generally 70%- 75% loan to valuation and to a maximum 25 years.

Alternative routes to finance

The alternative finance sector has flourished in recent years and continues to evolve at a significant pace.

In the UK especially, the reality of business owners being subject to a limited number of finance options has been replaced by a scenario in which there is now a huge number of exciting new online providers to consider.

Grants
A grant is a non-repayable amount of money given be a grant maker (often a government department, corporation, foundation or trust). Most grants are made to fund a specific project and require some level of compliance and reporting. The grant writing process usually involves an applicant submitting a proposal (or submission) to a potential funder, either on the applicant's own initiative or in response to a Request for Proposal from the funder.

Crowdfunders
Crowdfunding platforms allow businesses to raise finance from members of the public, bypassing more traditional sources of finance such as banks and professional investors. This usually involves lots of individuals investing small amounts of money towards your project.

Crowdfunding platforms enable you to promote your business plans to thousands of potential investors at once, significantly increasing your chances of accessing finance.
The 2 types of crowdfunding of interest to businesses are debt crowdfunding and equity crowdfunding.

Debt crowdfunding, also known as peer-to-peer lending, provides the investors with interest on their investments.

Using equity crowdfunding will see you sell a stake of your business in return for investment.

Social Entrepreneurs
If your idea has any element of social responsibility or community engagement, then there are a wide range of sources of funding available to you. Many such as Power to Change and UnLtd derive their funds from the Lottery, and they have a large pool of resources to send your way in terms of knowledge, spreading awareness and attracting customers.

Government schemes
The government's website lists over 500 schemes currently available to help fund or support businesses in the UK.

For instance the government offers loans worth between £500 - £25,000 to eligible start-ups and small businesses in their first 2 years of trading. These fixed rate loans charge 6% interest per year and are available for terms of 1-5 years.

Venture capitalists and angels
Venture capitalists and angels operate in the same ball park, although they differ in fundamental ways. A venture capitalist is a business or individual who provides capital to small businesses or start-ups to help them expand in return for high rates of return. Angel investing, on the other hand, is when a person's disposable finance is ploughed into a company, normally in return for shares.

Remember that in either case you must be a limited company before you can issue shares.

Peer-to-peer
An online marketplace connects established businesses with people and investors who have money to lend. As the rise of companies such as Funding Circle, a government backed scheme shows, peer-to-peer (or peer-to-business) lending is a true growth industry. This form of lending is designed to be a win-win situation that provides lenders and investors with attractive rates of return while also ensuring that credit worthy borrowers get access to finance that is competitive.

Invoice factoring
Whereas a traditional factoring or invoice discounting house would require you to give up your whole ledger, newer online marketplaces are more flexible and allow companies to sell individual invoices online.

Online unsecured loans
These are designed as short-term use business loans, paid back over the agreed period of time with added interest. It's good to be aware that this type of loan can become expensive if payments are missed or if taken over longer periods.

Charity Funding News
An excellent round-up of locally available charity funding is provided through a regular email bulletin from Mandy Maloney at Merseyside Network for Change – email Mandy to be added to her circulation list at mandy@merseysidenetworkforchange.org

Attracting the right kind of finance?

All potential funders, whether they are banks, organisations, government bodies and even friends and family will want some reassurance that they are not throwing money away if they decide to lend, or even better, give you money.

Whatever type of funding you have set your sights on, here are 5 tips on how to improve your chances of success.

1. Write a strong business plan. This should include an overview of the businesses aims, objectives, structure, legal status, operations, target markets, USPs and financial requirements.

2. Get to grips with the financials. How do you expect to inspire confidence in potential funders if you can't read and interpret a balance sheet and talk with confidence about the state of your business?

3. Check your track record and credit score. Banks in particular will want to see how you handled money in the past, so will go over bank statements with a fine-tooth comb. Be prepared to explain any anomalies and try to clean up your credit rating at the agencies your bank uses.

4. Be honest and realistic about how much you need from the outset. It's far harder to go back for more once funding has been agreed.

5. Stay in touch and communicate regularly. Nothing is more worrying that silence, so respond to emails, phone calls and letters as soon as you can. Even better, be proactive.

The best option for your business

It could be that you don't actually need to go elsewhere for funding at all. In some cases we have helped clients to release the money they need through the use of leasing, factoring and asset finance.

Every choice about how you are going to finance your business will bring its own pros and cons, results and ramifications and obligations, so take your time, talk to one of our experts and see which direction is most suited to you.

Contact Andy Oakes andy.o@bwm.co.uk for more information.

FOR GENERAL INFORMATION ONLY

Please note that this guide is not intended to give specific technical advice and it should not be construed as doing so. It is designed to alert clients to some of the issues. It is not intended to give exhaustive coverage of the topic.

Professional advice should always be sought before action is either taken or refrained from as a result of information contained herein.

About Us

Professional, Personal, Affordable.

We are one of the leading, independent chartered accountancy practices in Liverpool. At BWMacfarlane we provide a wide range of accountancy and business support services to organisations and individuals throughout the North of England and beyond. Our experienced and skilled partners and their teams are ready to support you with high quality, individual yet affordable services however complex your personal or business needs.

For more details of how we can help you transform your business, please visit www.bwm.co.uk or call us on 0151 236 1494