Raising finance for your business

Finding a method of finance that works for you and your business is crucial to its success. However, raising funds remains a significant challenge for many businesses. Whether you are looking to start a new business or need capital to expand, there are various options to consider.

Overdrafts

Overdrafts are credit facilities that have a set amount of money, agreed between you and your bank. They can provide a flexible means for covering short-term outgoings and unforeseen business expenses. Overdraft limits need to be agreed in advance and interest is ordinarily charged on any money you receive from an overdraft facility. Other charges may also be payable such as arrangement or renewal fees.

Overdrafts should not be used as a long term source of finance, and continued use may lead your bank to question whether you are in financial difficulty. If you find yourself overdrawn for long periods of time, contact us for advice.

Loans

Principally, loans have been the conventional source of funding for most businesses. Bank loans are taken out for a fixed term, with interest rates agreed in advance, so they are straightforward when it comes to incorporating monthly repayments into your financial plan. Repayment terms and interest rates can sometimes be negotiable, although banks are increasingly asking for collateral as an additional form of security.

Alternatively, borrowing money from friends or family may be an option if they are willing. If this is the case, it is important to draw up legally binding arrangements and to make sure every aspect is formally agreed in advance to avoid any potential upset.

Every loan application will show up on your credit file and banks are more cautious about lending in today’s economic climate, so make sure your business plan is solid and your reasons for borrowing are legitimate, before you apply. If you are a perceived high risk to the bank, you may be refused the loan.

For advice on how much money to request or for a financial assessment of your business before you apply, please contact us.

Grants and government support

You may be able to make use of a grant or other type of support. Grants are usually provided by local councils, the government and charities, and can be an inexpensive form of financing. Grants and similar subsidies are typically non-repayable, but tend to be highly sought-after, resulting in fierce competition for this type of funding.

However, government grants are usually only offered to businesses operating in specific sectors and for specific projects. You may be required to cover part of the cost of your project, or to match the funds granted to you.

Other sources of government funding may prove to be beneficial: the government-owned British Business Bank, for instance. The Bank works with a variety of partners, including other banks, venture capital funds, web-based platforms and leasing companies.

To search for available schemes and grants in your sector visit www.gov.uk/business-finance-support-finder.

Coronavirus loan schemes

In 2020, the government introduced a number of government-guaranteed coronavirus loan schemes. In December 2020 the Chancellor extended, until the end of March 2021, access to the Bounce Back Loan Scheme, Coronavirus Business Interruption Loan Scheme and the Coronavirus Large Business Interruption Loan Scheme.

Budget 2021 announced a new loan scheme to be introduced to replace those coming to an end.

The Recovery Loan Scheme provides lenders with a guarantee of 70% on eligible loans between £25,000 and £2 million to give them confidence in continuing to provide finance to UK businesses. The scheme is open to SME businesses, including those who have already received support under the existing COVID-19 guaranteed loan schemes, and is due to run until 30 June 2022.

Investment

This option involves selling part of your stake in the business to an interested investor. The investor could be a wealthy individual, a private equity company or a larger company operating in the same sector. As only limited companies can sell shares, sole traders and partnerships are not able to use investment finance as a source of funding.

If you sell part of your business to an investor, any profit (or loss) the business makes will be shared with the investor. Advantages for this type of finance mean you are not charged interest and there are no monthly repayments. Often, new investors also bring varied skills to the table, which could potentially improve your business. However, this type of finance means relinquishing some control and investors often expect to be consulted before any management decisions are made.

Debt factoring and invoice discounting

Factoring involves selling any unpaid invoices to a third party and paying interest and/or a fee on them. The third party will then collect the debt themselves.

Invoice discounting provides a means of borrowing money against any unpaid invoices owed to your company (again, for a fee). As your invoices are paid, the amount you owe the lender decreases.

These forms of finance can often be a good way of releasing cash tied up in unpaid invoices back into your business.

Asset finance

Leasing equipment means you can avoid spending a large amount of money in one lump sum. This is often beneficial from a cash flow perspective, although it should be noted that in some cases the monthly leasing instalments can be more expensive than buying the asset outright. Leasing will also give you access to a high standard of equipment, and assets can be upgraded easily when contracts end.

Hire purchase agreements are another option for those who want to acquire business assets without having to pay for the whole item up-front, and contracts usually include an option to purchase at the end of an initial period.

And don’t forget, the cost of qualifying business equipment is usually tax deductible – talk to us for further details.

We can advise on the most suitable type of finance to suit your needs – please contact us for further information.