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Masons

REGISTERED AUDITORS • ACCOUNTANTS • BUSINESS ADVISORS

Raising Finance

Who needs finance?

Every business from its commencement and through its development and growth will need finance.

But what type of finance is best suited to the development of your business, and who should you approach for funding?

COVID-19 Business Interruption Loan Scheme

In March 2020, Chancellor Rishi Sunak unveiled a £330 billion package of support for the UK economy as it combats the COVID-19 pandemic. The measures dwarf the £12 billion made available in the 2020 Budget. The package includes an increase in government-backed loans, higher cash grants, widened business rates relief for some sectors and mortgage holidays for struggling homeowners.

Included in the Budget and March support package was the Coronavirus Business Interruption Loan Scheme. The scheme supports SMEs with access to loans, overdrafts, invoice finance and asset finance of up to £5 million and for up to six years. The government will also make a Business Interruption Payment to cover the first 12 months of interest payments and any lender-levied fees.

The government provides lenders with a guarantee of 80% on each loan (subject to pre-lender cap on claims) to encourage lenders to provide finance to SMEs. The scheme is delivered through commercial lenders, backed by the government-owned British Business Bank.

In April the Chancellor announced changes to the loan scheme in order to make it easier for small businesses to access loans. The Business Interruption Loan Scheme is extended so more small businesses benefit. Lenders are banned from requesting personal guarantees on loans under £250,000.

Subsequently, further schemes have been announced for small businesses, larger businesses and start-ups. The most popular is the Bounce Back Loan Scheme, which allows small businesses adversely affected by the pandemic to apply for up to £50,000, with the government guaranteeing 100% of the advance.

The latest position on these schemes can be found on the relevant links below:

<https://www.gov.uk/guidance/apply-for-the-coronavirus-business-interruption-loan-scheme>

<https://www.gov.uk/guidance/apply-for-a-coronavirus-bounce-back-loan>

Further guidance on which scheme is suitable for your business can be found here:

<https://www.gov.uk/business-coronavirus-support-finder>

Do not hesitate to contact us for assistance in applying for finance under the scheme.

In the rest of this factsheet we provide guidance below on types of finance available if the Business Interruption Loan Scheme is not applicable and outline the planning required before approaching any lending institution.

Planning for growth

Is finance required?

Finance is very often necessary but consider what it will entail. Additional funding requires a commitment in terms of capital and interest payments. Embarking on this course of action must therefore be planned carefully.

The business must be capable of sustaining any additional commitment to growth or expansion, and consideration will need to be given to effects on manpower, materials and space.

Tapping existing resources

Before seeking outside finance, a business must consider whether it could improve its working capital from within.

Particular attention should be given to stock and debtors to ensure that both are kept to a minimum. Consider how long it takes to bill customers and collect debts and look at ways to reduce this time.

If there are periods of time when surpluses of cash arise, review your affairs to try and ensure these are being used to generate income by investing on temporary short term deposit.

We can advise you on all these matters.

Business plan

Assuming external funding is necessary, planning is essential in achieving success. A well drawn up business plan not only crystallises in your own mind the nature of the project and the timing of any required funding, but is vital to any lending institution. They are unlikely to provide any assistance without a properly drawn up business plan.

The plan will include details of:

- the objectives and aims of the business
- the purpose of the required funding
- the business ownership and history
- management and responsibilities
- products and market share
- sales plan and strategy
- the financial position of the business with detailed cash flow forecasts and past accounts.

Types of finance

General

Finance is available in many forms, but it is important to make sure that it is right for your business. Onerous terms and inflexibility can often hinder a growing business.

The more obvious sources of finance include bank overdrafts and medium to long term loans and mortgages, but rates of interest can vary considerably. Therefore we advise you to consult with us before making your final decision.

Specific

Specific methods of finance are available for acquiring assets or releasing cash from debtors. Carefully consider the options available which include:

- leasing assets
- hire purchase
- outright purchase
- debt factoring
- invoice discounting.

Each method of funding has advantages and disadvantages including implications for tax purposes.

Other

Other means of finance may be available for your business from government sources, through the issue of shares or even your own pension scheme.

Government assistance can be in the form of grants, loan guarantees or an enterprise capital fund. Other grants may be available on a regional or local level. The [British Business Bank](#) is a government owned company which

aims to make finance markets work better for small businesses and works with partners such as banks, leasing companies and venture capital funds.

Raising finance by issuing shares may be another option to consider.

Security

Whatever form of finance is offered, the lender will always require some form of security. However the level of security sought may vary - beware the lender asking for unreasonable guarantees.

Fixed and floating charges

Most bank loans and overdrafts are secured by way of a fixed charge over land and buildings with floating charges over other assets of the company such as stock and debtors.

Personal guarantees

For some businesses little security may be available because of insufficient assets. Consequently the security will be given in the form of personal guarantees. Take extreme care before signing these guarantees as they can be difficult to amend at a later stage and many borrowers have suffered as a consequence. In particular, personal guarantees are best if they are limited by time or amount. Unlimited guarantees are the most dangerous.

General

It may be possible to use other assets as collateral such as life insurance policies or by taking a second mortgage over your home.

Whatever the means of security pledged, it should be carefully considered and advice sought.

How we can help

The means by which finance is obtained will vary enormously according to:

- the amounts required
- the nature of the business
- the risk exposure to the lender
- the period for which finance is required.

Accordingly whilst some generalisations apply, individual circumstances require specific consideration. Time invested in formulating a funding strategy, whilst not guaranteeing success, will provide a structure to guide the growing business.

Our experience and contacts can enable you to achieve the means to help your business grow.

We would welcome the opportunity to assist you in formulating a business plan and obtaining any necessary finance.