Business Funding *Guide*

ArmstrongWatson®
Accountants, Business & Financial Advisers

www.armstrongwatson.co.uk

Business Funding

Sourcing the capital needed within your business can be a time consuming and often expensive endeavour.

With so many different finance options available it can be difficult to narrow down which type of funding is likely to best suit your needs, away from the traditional forms of funding such as a business overdraft facility.

In order to help with this choice, we've put together a brief guide to some of the most popular financing options taken up by UK businesses. These are by no means exhaustive but hopefully provide an insight into some routes that you may not have considered previously.

It's important to us that we ensure you have as much information as possible in order to make the right decisions for your business and, as part of this process, we help guide you through the various opportunities available and maybe even suggest a few new ones.

Our Commercial Funding team are constantly looking at what is available in the market place in order to be able to offer the widest options.

Next time you are considering any form of funding for your business why not give us a call, you might be surprised how we can help.

Working Capital Finance

Sometimes businesses simply need a helping hand taking care of the day to day running costs of their business. Maybe an unexpected tax bill, the need to expand the workforce or even an increase in property rental costs can suddenly add extra strain on working capital.

Working Capital Finance is a multi-purpose, flexible, short term loan which can be used for almost any purpose within a business.

Loans can usually be issued within a matter of days from approval and tailored to suit specific requirements.

These loans can either be for a fixed term or on a revolving basis. This type of funding has grown rapidly over the past few years and new lenders continue to move into this space offering even more choice.

Loans can be provided on either a secured or unsecured basis but will normally require directors to provide a personal guarantee to support the funding.

Asset Finance

Purchasing new assets for a business is an essential part of growth, however sometimes cash flow can hold back the business from expanding as quickly as you would like.

Outlaying large upfront payments for new equipment or machinery can affect the day to day cash flow in the business but failing to invest could see your customer base begin to suffer.

Asset finance as a form of funding is specifically designed to help businesses in this scenario. Lenders are either able to purchase the asset on behalf of the business allowing you to spread the cost of buying it into affordable monthly repayments or they can simply lease the equipment to your business for as long as it is needed.

Common Forms of Asset Finance available:

Finance Lease

A finance lease works in a similar way to renting any equipment that is needed. The asset is typically leased for its useful life. This means that it is not owned at the end of the agreement but gives flexibility and means that your business will not be left with outdated equipment.

Operating Lease

An alternative to a finance lease is an operating lease. This is where the lender will effectively rent the machinery or equipment to your business.

The difference is that the rental is calculated not on the total cost of the equipment but on the difference between the initial cost and the estimated residual value of it at the end of the rental period. This can be a helpful way to enable the use of more expensive pieces of equipment for businesses where rentals based on the full value could make the cost prohibitive.

As with a finance lease, at the end of the agreement the equipment is either returned, sold to a third party by the lender or a new lease agreement is entered into.

  

Contract Hire

Contract hire is a form of operating lease and is most commonly used to access new vehicles. Payments are calculated based on the difference between the purchase value and the estimated residual value of the vehicle at the end of the agreement. This helps to keep payments lower and, as with operating leases, generally can enable a more expensive vehicle to be acquired.

Hirers do need to be mindful of the terms that will surround a contract hire agreement however, particularly penalties that relate to excess mileage as this can add additional costs to the agreement upon its conclusion.

Hire Purchase

Should you as a business owner prefer to own the asset at the end of the agreement, then a hire purchase facility may suit your circumstances better. Payments are similar to a finance lease and are based on repaying the full cost of the asset but at the end of the agreement - subject to an additional option to purchase fee - ownership will revert to you.

Refinancing

As an alternative to help raise funds for general business use you may choose to refinance assets already owned.

This can often be a more cost effective way to use the value in current business assets and secure funds quickly that can then be used to invest elsewhere in the business.

There are other considerations when deciding whether an asset finance facility would best suit the business, such as deposits and the type of equipment. Before making any decision we will take you through all of these factors to ensure you make the best choice for your specific business circumstances.

Invoice Finance

Often the most liquid asset other than cash that a business has, is the debts owed to it by its customers in the form of invoices outstanding.

In many cases goods and services are provided and payment terms given to customers allowing credit for an agreed period of time.

As an alternative to an overdraft, some businesses may choose to borrow against what they are owed in their invoices. Normally lenders will allow a business to borrow up to an agreed percentage against this figure.

This type of funding can be more flexible than an overdraft or loan with the amount available being directly linked to the amount of sales made. One of the main benefits of this type of funding is that business owners don't have to wait for up to 90 days to gain access to cash. This allows for much more effective management of day to day cashflow. This can be particularly useful for a business that is growing, with working capital available being able to grow at the same pace.

There are several types of Invoice Finance facilities available:

Invoice Discounting

Often provided by lenders on a confidential basis so your customers are not aware that you are borrowing against what they owe you. Normally invoices are financed against for up to 120 days from the date of issue.

Factoring

This works in a similar way to Invoice Discounting but the lender will also provide sales ledger management in addition to funding.

This can be useful for a business that does not have the time or manpower to effectively manage the credit control on its own ledger. It can also include credit checks on any new potential customers, as well as the option to insure the ledger against bad debts (this can also be done on an Invoice Discounting facility).

Spot Funding

Rather than raise funds against the whole sales ledger, your business may have a shorter term funding need. In this case, raising funds against a specific debt can provide a simpler cost effective solution, with the debt repaid once the invoice is paid by the customer.

Loans Against a Ledger

Some lenders will offer the option of a loan repayable over a period of time using the sales ledger as security. Unlike a traditional Invoice Finance facility this is not a revolving facility but can be a useful way to secure funding without the need for additional security from directors.

Merchant Cash Advance

Fluctuating turnover can be a real headache for a business looking to source and repay funding.

Whilst a particular repayment may be affordable during busy periods it may be more difficult to keep up these payments during quieter periods of trading.

If your business takes regular credit and debit card payments then it could be eligible for a merchant cash advance offering the security of a loan with the flexibility of revenue focused repayments.

Rather than sticking to a fixed monthly payment you would simply repay part of your loan each time a customer makes a payment through your card terminal.

This effectively means that in busy periods more is repaid against the loan than in quieter times.

For any business that is more seasonally based this may be a useful option to consider.

Lenders normally offer this type of funding on a revolving basis meaning that you will be able to continue using your existing credit facility each time 60-70% of the initial balance has been repaid.

Normally loans are calculated based upon the volume of card sales over the previous 6-12 month period, they can also be set up very quickly on this basis.

The purpose of the loan can be multi use so the funds could be used for anything from day to day cash flow to investing in another business.

Trade Finance

A common issue for some businesses looking to grow their customer contracts is the ability to fund large orders from suppliers.

Although credit facilities can sometimes be obtained, businesses will often receive less favourable terms as well as having to stick rigidly to approved credit limits.

With trade finance the lender purchases stock on your behalf from the supplier, securing finance against purchase orders from your customers as well as against the stock itself.

This should allow better terms to be negotiated with suppliers as you effectively become a cash buyer. It may also allow greater quantities of product to be bought, enabling the business to grow more rapidly.

The lender is repaid once the goods are delivered to your customers. If your business gives credit terms to customers, an Invoice Finance facility may be added allowing the trade finance funding to be repaid from the funds raised against invoices once the goods have been delivered.

Property Finance

Buying or building a Commercial property is one of the largest investments that any business will make.

What are the best ways of doing this?

Commercial Mortgage

These can be used for purchasing a business property, either for the use of the business itself or as an investment opportunity on a buy to let basis. Refinancing a property already owned could also be considered to raise capital for other purposes.

Normally taken out over a predetermined period of time with any charges, interest rates and fees transparently outlined upfront. This allows payments to be budgeted for effectively.

Rates can be either variable or fixed for a period of time. It is also possible with some specialist lenders to have a mix of both. In certain sectors such as Agriculture rates can even be fixed for the whole term of the mortgage.

Available across most sectors you will probably need to have a reasonable deposit available, although the exact level will depend upon several factors and to which lender you are talking.

Development Finance

Whether you are looking to take on a major new build project or to refurbish or redevelop an existing structure, development finance can help to fund your next investment with both up front capital and ongoing instalments.

Normally available for up to 24 months with the amount borrowed repaid once the project has been completed and the property or properties sold on.

If the property is being retained, a standard commercial mortgage can be taken at the end of the development to clear the funding and proceed with a more affordable long term solution.

Bridging Loans

This type of funding is ideal where you may need to raise funds quickly for a relatively short period of time. This could enable funds to be raised to help plug a gap with a renovation or whilst waiting for a more traditional mortgage to be approved. It could also allow a new property to be acquired while waiting to sell an existing one.

This area of secured funding has grown massively over recent years with many providers in the space. Rates are more expensive but this should not be seen as longer term funding.

For further information about commercial funding and to discuss the best options for your business, please get in touch:

Andy Preece
Commercial Funding Director

DD: 0113 221 1379

M: 07824552179

E: andy.preece@armstrongwatson.co.uk

Supporting, advising and protecting companies and individuals for the long term

ArmstrongWatson®
Accountants, Business & Financial Advisers

www.armstrongwatson.co.uk