NBV

Guide to Business Finance

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European Union
European Structural
and Investment Funds

Welcome to NBV Enterprise Solutions Guide to Business Finance.

NBV have been helping people start and grow small businesses for over 30 years across the East Midlands. Since 2013 we have supported 1239 brand new businesses to get started. During the same period we have helped both start-up and established businesses access £472,006 in loan funding and £2,005,911 in grants. This is only the direct funding from our own contracts and does not include the vast amount of external funding via other grants, loans, crowd funding and equity investment. So we are reasonably well placed to give you an idea of what funding might be available to you!

The Guide covers all of the main sources of finance for both start-up and growth businesses and whilst we try and update it as often as possible the world of business finance changes constantly and no guide can take the place of obtaining sound advice from a business support professional such as the Advisors employed by NBV.

We hope you enjoy the guide and if you would like to arrange to see an advisor please do not hesitate to call us on 0844 887 2568.

Kind Regards

Richard Dearden
CEO NBV Enterprise Solutions Ltd

Personal savings and informal loans from family or friends

Personal savings and money raised from friends and family are the most common forms of finance for start-ups.

Friends and family may be prepared to help you start your business by offering you a loan, particularly if you cannot get one from a bank. This may be on preferential or 'soft' terms, including the possibility of an interest-free loan. If you opt to pay interest there will be tax implications for both parties. However, personal relationships may be affected if your business does not do as well as planned and you are unable to repay the loan on time or in full.

Relatives or friends may also consider investing money in your business in return for a share of its ownership, even if they act as a 'sleeping partner'. However, they need to understand that they will be risking their capital and that returns are not guaranteed, so they should invest only what they can afford to lose. This type of investment also has implications relating to the legal status of your business.

Bank Loans

Business loans are available through the major high-street banks and it is important to shop around for the best deal for your own personal and business circumstances. You should consider the amount you need to borrow, the rate of interest charged and the repayment period that you can afford. If you are starting a business, it is likely that your loan will need to be secured against a personal asset such as your house. It is also unusual for banks to lend the whole amount needed for a new business start-up often offering a percentage and expecting the business owner to provide the rest from their own savings or other sources of finance.

If you are an established business bank loans are one of the most common forms of finance for businesses as they are flexible and relatively accessible. Typically referred to as 'term loans', they are repaid over a specific period. The loan is usually secured against a business asset or a personal asset of the business owner, so that if the loan repayments aren't made in full the lender has some security that can be seized in order to recover the sum owed.

Interest will be charged on the full amount of the loan, so it is important to only borrow the money the business needs in order to save unnecessary interest charges.

One advantage of bank loans is that the term of the loan can be matched to the expected life of any asset that is used as security against the loan. For example, a short-term asset (such as a computer) can be matched with a short-term loan, and a long-term asset (such as a piece of machinery) can be matched with a long-term loan. When looking for a bank loan, it is useful to shop around to see what deals are available from both online and high-street banks. Compare the interest rate, the loan term and the loan agreement to ensure that the loan repayments are manageable and the terms are acceptable. It is also worth checking if any incentives such as an initial repayment holiday, reduced initial interest rate or reduced set-up fees are available.

When banks are assessing whether to offer a business loan, they will look at the business' 'gearing'. Gearing is the ratio of debt to equity in a business. Equity is the money that has been invested in the business.

Gearing is usually calculated as debt divided by capital employed - capital employed being the sum of the debt and equity - expressed as a percentage. Increasing the debt in the business will increase its gearing, which will in turn increase the bank's perceived risks associated with the business. Banks typically aim to ensure that gearing does not exceed 50%, but they can sometimes be persuaded to go much higher.

Banks are also likely to look at 'interest cover'. This is a ratio of net profit to interest and is a measure of the ease with which the business can meet its interest payments out of its profit. It is calculated by taking profit before interest and tax and dividing it by interest paid. Banks look for an interest cover ratio of at least two, and ideally want a higher ratio.

Commercial mortgages

Commercial mortgages are loans that are typically used to buy, refinance or develop business property. They are repaid over long periods, usually with terms of 15 years or more. Mortgages are secured on the property, which will be at risk if the business defaults on the repayments, and consequently the interest rates are relatively low compared to unsecured loans and overdrafts. Most commercial mortgages have a variable interest rate that fluctuates in line with the Bank of England base rate.

Most banks and building societies provide commercial mortgages and all will investigate the business' current position, outlook and credit history before considering an application. In addition, some may check the personal credit history of the business owners or directors before offering a commercial mortgage.

The costs of taking out a commercial mortgage comprise interest payments, capital repayments and various charges imposed by the lender, such as arrangement fees, valuation fees and late payment penalties.

Start-Up Loans

NBV are a delivery partner for Start-Up Loans a government initiative aimed at supplying funding to businesses that are unable to obtain bank finance. Loans range from £1,000 to £25,000 and are available over 1-5 years. Interest rates are a very competitive 6%. The Start-Up Loan is not an easy option – you will need to undergo a credit check, provide bank statements and identification alongside a strong business plan with well-developed financials. For more information on Start-Up Loans visit the Start-Up Loans website https://www.startuploans.co.uk/ or call NBV on 0844 887 2568

Case Study – Jack Gunter

With the help of the NBV Enterprise Solutions Ltd (NBV) Grant for Enterprise, many entrepreneurs across Nottinghamshire, Derbyshire and Lincolnshire are being given the opportunity to grow their business. Jack Gunter from dgtl Concepts is one such entrepreneur.

A CREATIVE OUTLET ALL UNDER ONE ROOF

Based in the centre of Nottingham, dgtl Concepts was set up by Sam Wordsworth (Managing Director) who was soon joined by Jack Gunter (General Manager). It is a company that unifies all of the creative arts including photography, video production, aerial cinematography, graphics and web design. The business was started in 2014, and Jack states: "Running a business allows you to really get stuck in and see the differences your actions are making and you get to choose the direction in which the business goes."

Due to low-profit margins, the business looked to move out of the student nightclub photography business and wanted to take on larger video production projects. To make this change the business needed to invest in some new state of the art equipment. Jack approached NBV and applied for the Grant for Enterprise. He comments:

"This grant enabled us to purchase a Sony PXW-FS5 video production camera, along with other production equipment. We have wanted to purchase this equipment for quite a while now but the cost has been slightly out of our reach, **the 25% grant has been really beneficial to us**."

The future plan for dgtl is to become one of the world's leading digital storytelling production companies, creating content which is stimulating, innovative and visually engaging. Jack adds: "The equipment we've purchased is brilliant for the business and the quality of our work has improved and has allowed us to pitch for higher profile jobs which demand the very best equipment."

Soft Loans

There are a number of charities that offer 'soft' loans. These loans are often very specific in their eligibility criteria, often aimed at a particular age group or geographical area. If there is one in the area where you live or aim to set up your business they can offer a fantastic alternative to traditional finance. Interest rates and terms are often much

better than those for commercial loans including 0% interest rate offers with long repayment terms and delayed repayment offers.

Most will call for a business plan and financials and awards are often only made after attending a panel or interview and may require guarantors for the finance.

Case Study - Ruth Wood

Ruth Wood had graduated from the School of Jewellery in Birmingham in June 2006 with a Degree in Jewellery Design and Silversmithing and was then accepted to Bishopsland; a one year stepping stone for graduates to begin working for themselves. After several years of making and selling her stunning range of jewellery from her studio Ruth took the decision to open her own boutique gallery in Market Harborough.

Despite a number of years in business Ruth knew that this was a big step and that she would need to raise some capital. She had heard of the Sir Thomas White Loan scheme which offers interest free business loans of up to £15,000 to young people in Leicestershire, but wanted some support producing her business plan and financials for the application.

Ruth accessed NBV's support through a Business Support Clinic and travelled to the Leicester City office to meet with a Business Advisor. 'From quite early in my first meeting I realised that I had a lot of work to do, particularly in getting the financials right' says Ruth. 'Although my advisor guided me he also explained how important it was that I did the numbers myself so that I understood them and would be able to talk them through with the loan panel'.

'Following the first meeting I was given 'homework' on the business plan and set about putting my figures into spreadsheets. I felt much more prepared for my next meeting and felt like I was really getting a grasp of the business finances' she adds.

Ruth's Advisor takes up the story 'Ruth worked incredibly hard between meetings and learnt very quickly, understanding the differences between cash flow and profit and loss forecasts. At our final meeting I ran a 'mock' panel interview – questioning Ruth to ensure that she had really thought through her forecasts and could answer the questions that the panel would have'.

Ruth went to panel in January 2014 and was successful in gaining a loan for £15,000. 'Ada' opened in March 2014. Ada is located in the peaceful courtyard of Bennett's Place in Market Harborough, hidden away from **the hustle** and bustle of the main high street. In the beautiful boutique style gallery you'll discover wonderfully crafted jewellery by Ruth and over 40 other highly skilled top & emerging designer makers from throughout the UK.

Bennett's Place is home to an exclusive selection of contemporary adornments including handbags, scarves, metalware, spoons & bowls etc, promoting the best of British Craftsmanship.

Although securing the finance to get the boutique open was the primary reason for accessing the Business Support Clinic, Ruth also found that she learnt a lot from working with her advisor; 'I have a far better understanding now and I am much more confident in managing my businesses finances. The Business Support Clinics from NBV proved a great investment to my business.'

Overdrafts

An overdraft is a simple, flexible way to finance a business. The lender will set a maximum level of overdraft that should not be exceeded and interest is only paid on the amount that is overdrawn. The interest rate is usually higher than that on a loan but interest is calculated on a daily basis, so it is often a cheaper option.

Overdrafts are normally used to finance short-term cash flow requirements rather than capital items. They are repayable on demand and the lender will require security, which is often a fixed and floating charge over all the business' assets. As with bank loans, set-up fees are payable when an overdraft is taken out.

Peer-To-Peer Lending

Peer-to-peer lending (P2P) has really taken off in the last few years and is expected to become a £40 billion industry by 2016. With peer-to-peer business lending, a loan comes from individuals (members of the public) who put their own cash up to be lent. This process is carried out via an online platform called a peer-to-peer lender.

By funding businesses, investors essentially take the place of banks and see returns through interest rates applied to the peer-to-peer loan amount.

Speed and simplicity are benefits of peer-to-peer lending. It bypasses what can be much more complicated bank lending processes. For many businesses, it can often take just a few days to secure the required amount from online investors, who make their return based on the level of interest the borrower pays.

Peer-to-peer lending is suitable for businesses which have been trading for at least a couple of years, although this may vary depending on the particular platform.
While they share similar characteristics, each platform will have their own particular criteria for lending so it is important to compare them. And more participants are emerging; some of the principal platforms include:

- Funding Circle
- Zopa
- Ratesetter
- ThinCats
- Rebuildingsociety
- Funding Knight
- Assetz Capital

From April 2014 the Financial Conduct Authority started to regulate the peer-to-peer lending market after calls from providers themselves to be regulated. It's widely believed that regulation will help bring credibility and stability to the market, enabling further growth.

In February 2014 the British Business Bank announced that it is making a new £40 million investment to support further lending to smaller businesses through Funding Circle. This investment will start on 1 March 2014 and is expected to support around £450 million in lending over the next 18 months.

The Peer-to-Peer Finance Association has published more information about Peer To Peer, which can be viewed at http://p2pfa.info/

Community Development Finance Institutions (CDFIs)

Community Development Finance Institutions (CDFIs) specialise in providing finance to new and growing businesses that have been unable to secure finance through traditional routes such as bank loans. Most CDFIs are members of the Community Development Finance Association (CDFA,www.cdfa.org.uk), which can provide further information and the contact details of your nearest CDFI.

Credit unions

Credit unions are co-operatives that are owned and controlled by their members. Members must share a common bond, such as living in the same area, working for the same employer or attending the same church.

The members of a credit union pool their savings to provide each other with credit that is charged at a low interest rate.

There are around 400 credit unions across England, Scotland and Wales, with an annual turnover of over £90 million. They distribute their profits to members in the form of dividends.

Some credit unions provide loans for small firms, especially for new business start ups. For examples of credit unions that provide funding for business go to www.northlondoncommunityfinance.org/index.php/17/business-loans and www.partnerscreditunion.co.uk/content.asp?section=63.
The Association of British Credit Unions Limited (ABCUL) is the main trade body representing credit unions in England, Scotland and Wales. Go to www.abcul.coop for more information and to find a local credit union. For information on credit unions in Northern Ireland contact the Ulster Federation of Credit Unions (UFCU, www.ufcu.co.uk).

Credit cards

Some businesses fund their short-term spending through the use of credit cards. This has been encouraged by the availability of competitive deals such as introductory interest-free offers. While many credit card providers discourage the use of personal credit cards for business purposes, there are now a number of credit card offers specifically targeted at new business owners.

Credit cards can help a business to finance its short-term needs, but they don't make sense for long-term borrowing and we would not encourage businesses to use them as a main source of funding. Although initial interest rates may be attractive, the interest costs of credit cards are usually higher than overdrafts and loans, unless you can repay the outstanding balance each month.

Provided they are used sensibly then finance from credit cards can form part of the funding jigsaw for your business – but you should ensure that you do your research and are fully aware of the terms of any credit agreement you enter into.

Private equity investors

Private equity is money that is invested in your business by a third party in return for a share of the ownership. This may be provided by a commercial organisation such as a venture capital firm or private investors who are known as business angels. This type of finance is available only to limited companies. Private equity funding is not available for businesses that operate under a sole trader or partnership legal status.

Private equity is not usually secured on a company's assets, so the investor faces the same risks as the other shareholders. If the business fails they will lose their money. Investors achieve a return on their investment through the payment of dividends by the company and the value they achieve for their shares when they are sold.

You may be able to obtain equity funding for smaller amounts from friends or family on an informal basis. However, you should consider such funding carefully since it involves emotional decisions and the risk of alienating people close to you if things go wrong. If you do find individuals who are willing to invest, they may be able to secure tax relief through Government schemes such as the Seed Enterprise Investment Scheme (SEIS) for 'early-stage' companies, and the Enterprise Investment Scheme (EIS) for small higher-risk ventures.

Venture capital

Venture capital is a means of financing a business where a proportion of your business's share capital - or equity - is sold in return for a cash investment in the enterprise. It means that some measure of control or ownership over your business has to be given to the new shareholder. Most, but not all, venture capital investors are looking to make quite large investments, often over £1 million, which excludes them from providing finance to the majority of start-ups. The British Private Equity and Venture Capital Association (BVCA, www.bvca.co.uk) publishes a list of member firms, their contact details and the types of

funding that they provide.

There are publicly supported funds that help companies that are unable to attract funding from informal investors or venture capitalists. The British Business Bank provides a list of publicly supported funds that are currently investing in small firms in specific areas in England. It also lists UK-wide schemes. Go to http://british-business-bank.co.uk/market-failures-and-how-we-address-them/enterprise-capital-funds/funds-invested-in-by-the-british-business-bank for more information.

Business angels

Business angels are private investors who look for opportunities to invest money into new or growing businesses. Most regions of the UK now have business angel matching services, which encourage local investment and mentoring on a smaller scale. The UK Business Angels Association (www.ukbusinessangelsassociation.org.uk) matches business angels with small businesses requiring equity finance. Angels Den (www.angelsden.com) runs regional workshops for businesses looking for angel funding. Business angels are typically looking to invest funds of between £10,000 and £100,000, although they can also form syndicates of investors who will invest larger amounts.

Crowdfunding

Contributed by Racefields - www.racefields.com

Crowdfunding is the future. A report conducted by Nesta and the University of Cambridge Centre for Alternative Finance concluded that the value of this sector in the UK was £3.2 billion last year – an 84% growth on 2014's figure.

Research commissioned by the World Bank revealed that the global industry could be worth upwards of $93 billion by 2025.

Quite simply, crowdfunding is a way for businesses and individuals to source finance from a large group of people via internet platforms such as Crowdcube, GoFundMe and Kickstarter.

This fundraising is split into four distinct categories:

- **Equity crowdfunding** – investors receive shares in a company in exchange for investment.
- **Peer-to-peer** – investors are paid back directly by the business with interest on top.
- **Reward** – investors will be treated with a relevant gift as thanks for their investment.
- **Charity** – investors pool together to help hit a target for a good cause.

With well over 1000 platforms worldwide it's clear that crowdfunding has evolved from being a financial side show into something which experts believe will rival traditional funding in the coming years.

The UK Crowdfunding Association has published more information about crowd funding, which can be viewed at www.ukcfa.org.uk.

Invoice finance

Contributed by Bibby Financial Services - www.bibbyfinancialservices.com

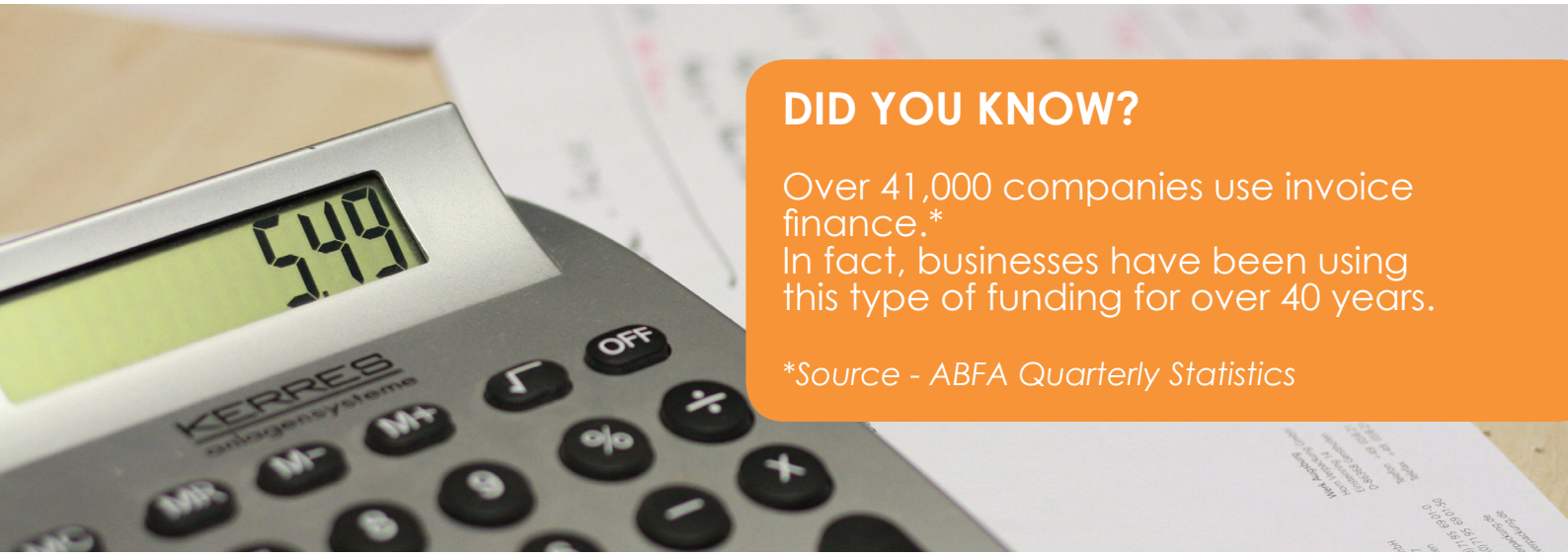
Invoice finance takes two main forms – factoring and invoice discounting. The different benefits provided by these services are listed below.

What is factoring?

Factoring is a flexible funding and collections service which releases cash tied up in outstanding customer invoices.

What this means:

- You can bridge the cashflow gap between raising an invoice and getting paid.
- You can boost your cashflow by receiving an immediate cash injection and ongoing supply of working capital into your business against the value of your outstanding invoices.
- You can benefit from the factoring provider's credit control service, saving you valuable time, as they will chase and collect outstanding invoice payments on your behalf.



DID YOU KNOW?

Over 41,000 companies use invoice finance.*
In fact, businesses have been using this type of funding for over 40 years.

**Source - ABFA Quarterly Statistics*

What is invoice discounting?

Invoice discounting is a flexible funding-only solution which releases cash tied up in outstanding customer invoices.

What this means:

- You can bridge the cashflow gap between raising an invoice and getting paid.
- You can boost your cashflow by receiving an immediate cash injection and ongoing supply of working capital into your business against the value of your outstanding invoices.
- You maintain the relationship with your customers and you collect payments against

outstanding invoices – the invoice discounter provides the cash to support you. Unlike factoring, invoice discounting does not include a credit control service.

Advantages of invoice finance

There are a number of advantages that invoice finance offers over other funding options.

A secure form of finance – the sales ledger is used to secure access to funds, so as your business grows so does the amount of funds that can be made available to you.

Access to specialist expertise – invoice financiers take an in-depth view of your business – this includes taking into account the entire financial picture when making a funding decision.

It's finance that grows with you – you get an immediate cash injection and an ongoing source of funding linked directly to current sales. As business grows and sales increase, so does the amount of working capital that the invoice financier can make available.

Improve your profitability – paying suppliers early lets you buy in larger quantities and take advantage of any volume discounts available.

An extensive credit history is not required in the UK – the sales ledger of the business is used to secure access to funds. This means those businesses which may have been turned down for bank funding have a viable and trusted funding option.

Will I lose control of my customer relationships if I use factoring?

No, an invoice financier will provide a dedicated credit controller who, in effect, becomes an extension of your own team; chasing and collecting payment in the way that you want them to. Many providers can also offer a confidential facility, where your customers would remain unaware of how you are funding your business.

Who is suitable?

Whether your business is large or small, long-established or fledgling, liquid or experiencing cashflow difficulties, you could benefit from the significant advantages invoice finance offers.

Invoice finance is perfect for:

- Fast-growing firms lacking the capital resources and cashflow to fund expansion plans.
- Start-up businesses and young companies with a turnover of at least £50,000 per
- annum (all funding decisions are based on the strength of current sales ledger and not
- past trading performance).
- Larger businesses looking to fund a range of major transactions – such as
- Managements Buy-Outs (MBOs) and mergers and acquisitions.
- Those businesses that have cashflow difficulties or who have been the victim of late payment.

Whilst start-up businesses may initially use factoring to improve their cashflow, as they grow and become more established, they may consider invoice discounting, which provides all the benefits of factoring, without the credit control.

What it costs

Compared with other types of business finance, invoice finance is a cost effective solution, and when compared with bank funding, the cost of money advanced is competitive. Although in general terms, fees are tailored to the specific needs of businesses and therefore differ from firm to firm.

There are two types of fee:

Service

This covers the day-to-day running of the sales ledger (usually between 0.5% and 3.0% of the turnover assigned).

Cost of funds

This is charged on the monies advanced to you.

You could also benefit from:

Savings on people costs Invoice financiers can provide credit control functions on your behalf as part of their factoring service, so businesses can make savings on the cost of employing a credit controller, typically saving the business between £15K to £20K per annum*

Significant savings on costly overheads such as postage, stationery and telephone calls.

A healthier bank balance Invoices are paid on time and more quickly.
With a regular flow of cash into your account, it means you could save on bank interest and charges.

Asset finance

Asset finance is where the lender (usually a bank) provides finance to buy capital equipment and the loan is secured on the asset acquired. There are two types of asset

**source: cmrecruit.com*

financing: leasing and hire purchase. With leasing, the asset is returned to the lender at the end of the lease period. With hire purchase, the business takes ownership of the asset at the end of the agreement, once the full amount has been repaid.

Trade credit terms

It is sometimes possible to agree credit terms with suppliers or negotiate an increase in the number of days before an invoice has to be paid. This can improve cash flow and provide more breathing space if customers are late with their payments.

Grants

Grants provide finance to allow your business to undertake a specific project that, without financial assistance, would not be able to proceed. Such projects might involve the initial start up of the business, developing a new product or buying equipment.

A grant is usually a one-off payment and provides funding that covers a percentage of the costs of the project - normally you or your business will have to meet some of the costs too. Unlike a loan, a grant does not usually have to be repaid unless you fail to comply with the specific eligibility requirements and conditions of the scheme.

You will need to check that you meet the eligibility criteria for a particular grant and consider what will be required to satisfy the funders' requirements.

Case Study - MIM Systems

Keith Armstrong, from Chesterfield approached NBV Enterprise Solutions to get help accessing the NBV ERDF Grant Fund.

His business, MIM Systems, was formed in 1997 specialising in the supply of automated time recording systems that log time spent on a job using a clocking card or user code.

Having launched a new range of attendance time recording systems with fingerprint recognition technology, and wanting to secure new customers within a broader range of industry sectors, he worked closely with his NBV business adviser to complete the ERDF grant application in October 2013.

Keith Said: "Accessing the NBV ERDF Grant Fund has delivered the intended step to increase sales and profit. "Sales are 6 times greater per month than the months prior to recruiting the help of a marketing specialist that has been able to help secure new clients."

The upturn in sales has had a positive impact on local job creation with Keith being able to recruit two full-time apprentices who will be able to use the opportunity to upskill and improve their job prospects. Keith explains: "Through the increase in sales, the business has been able to recruit two apprentices: one for systems preparation and one for customer support with an additional part-time marketing trainee."

Keith's NBV business adviser said: "At the time of approaching NBV, Keith had just introduced a new innovative product to the business service offering – Clockrite.

"The effective targeted marketing of this product was identified as being crucial to deliver commercial success. Keith accessed the NBV ERDF Grant Fund with regard to achieving this aim. After an initial meeting and subsequent email and telephone communications, a completed NBV ERDF Grant Fund Application Form, which confirmed a strong business case for the project proposal, was submitted for panel assessment. This application was approved."

"I am really pleased to hear that the investment that Keith has made into his business is delivering results which continue to far exceed initial estimates. The business has recently recruited additional employees to meet growing demand."

As for the future, Keith is seeking to develop the attendance systems side of the business by introducing new products and further improve his marketing methods.

Keith concludes: "The whole process seemed straight forward and Anna was on hand to help with any queries. NBV's service was great, the payment was prompt and I am enjoying a new chapter in my business."